Public Utilities

Volume 64 No. 6 September 10, 1959

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Public Utilities FORTNIGHTLY

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ARTICLES

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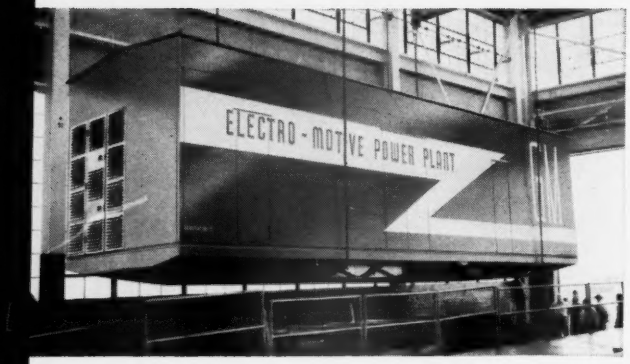
PEAKING POWER FOR1



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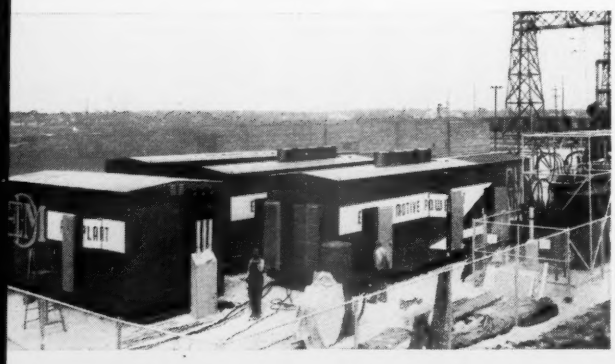

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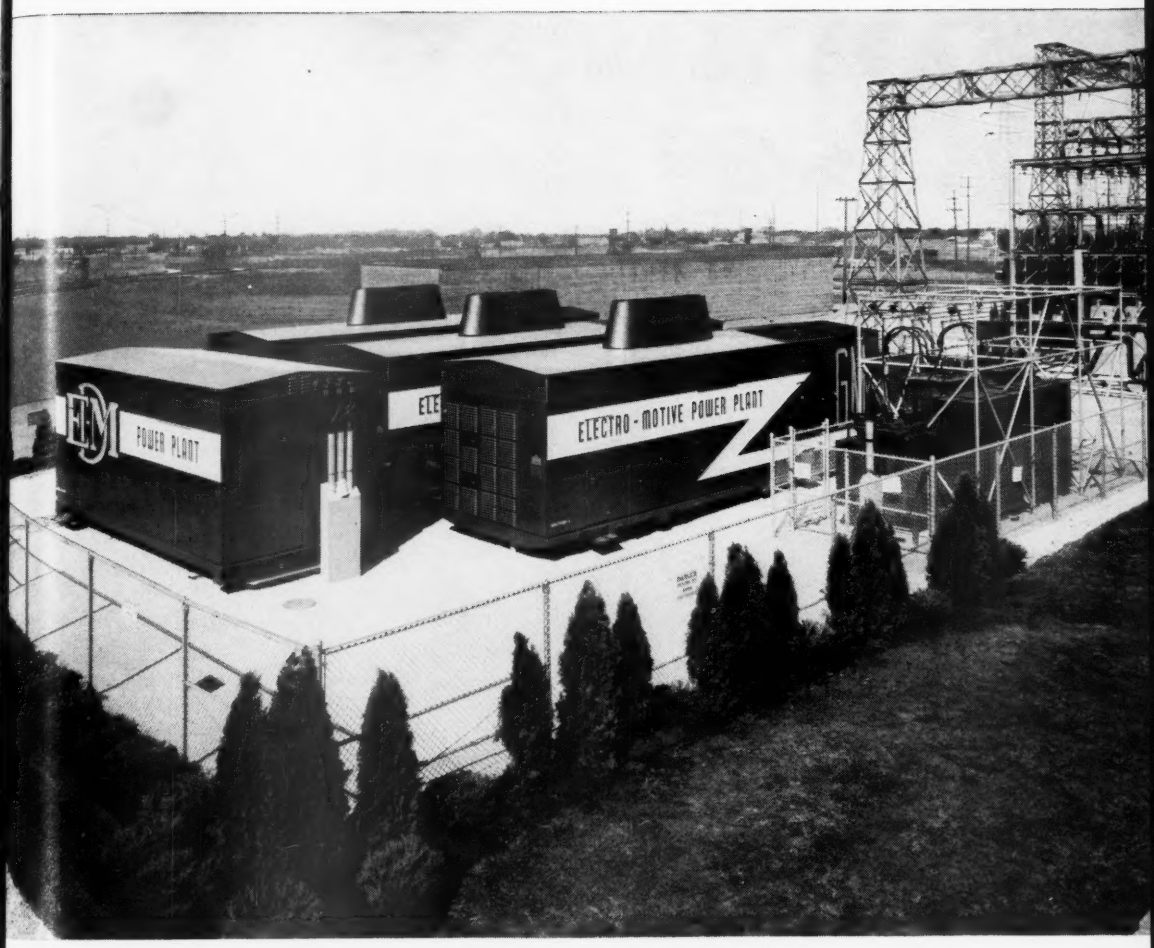

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Pages with the Editors

It takes a little bit of imagination to grasp the precise meaning of the word "normalize," which the accountants have coined in connection with accelerated depreciation for tax purposes. Presumably the word follows the all too prevalent pattern of technical word coinage by which the addition of the suffix "ize" changes a perfectly plain English noun or adjective into a somewhat questionable active verb.

In this manner the addition of "ize" to the adjective "final" gives us that horrible hybrid of official red tape, "finalize," which means to make final. In the same manner "homogenize" means to make milk or other combinations of separable ingredients more homogeneous, and "communize" means to make people into Communists.

But does the word "normalize" in connection with income tax deductions under the Internal Revenue Act mean that they are made "normal"? Actually, the purpose of the accelerated tax depreciation provision of the tax law was to permit tax deductions for depreciation to be abnormal, or at least quite different from the straight-line, equal instalment type of annual deduction previously authorized.

WILLARD F. STANLEY

It was seen, however, that if a public utility, for example, paid a lower tax because of an abnormally large deduction during the early life of depreciable property, but could not accrue any higher rate of earnings through operating expense charges, there would be neither advantage nor even temporary benefit to be gained from the use of the accelerated depreciation alternative of tax computation.

So, the proposal was made, early in the days of accelerated depreciation discussion, that a utility company should be permitted to use its abnormally large deduction as a basis of actual tax payment, while continuing to account for or charge off as expense what the tax payment would have been if previously normal deduction for depreciation had been used. The utility company thereby stood to gain at least the temporary benefit of the difference in dollars between the two methods of computation.

But what makes this process just as "normal" as the previous practice of straight-line depreciation is one of those arguments between the accountants and the grammatical purists which could go on and on without getting anywhere. Purists could argue that the so-called process of "normalization" was really in effect only a synthetic kind of normalcy—sort of a substitute for actual normalcy; or, as the lawyers would say, "*quasi* normalcy." But that could, in turn, start another argument—one which goes back to the presidential campaign of the late Warren G. Harding, when he repeatedly used the word "normalcy." The purists of that day (it was the fall of 1920) disputed the valid existence of the word, even though President Harding was elected on a campaign promise to restore the country to "normalcy."

The opening article in this issue deals with this complex problem of liberal-

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WAYNE R. SWANSON

ized tax depreciation after five years. Apparently the tax law has given rise to two general methods of regulatory treatment for both accounting and rate making. The first and most popular is "normalization," already mentioned. Under this method the reduction in taxes due to the alleged deferral of future tax liability is offset by a deduction from income, usually designated as a provision for future income taxes. The alternative method has more recently come to be known as "flow through." We shall not quibble about the accuracy of that description. But we have our doubts. In practice it means either an increase in net income for the company or credit for the consumers via rate making, or a combination of both.

WILLARD F. STANLEY, president of Corporate Services, Inc., of New York city, has made a careful survey of the advantages and disadvantages to public utility companies in the use of accelerated tax depreciation under both normalization and flow-through treatments. MR. STANLEY is a native of New York, who has followed a long career in public utility accounting and finance. He has also had a background in public utility management before establishing his present business, which consists of giving financial advice and allied services to corporations, especially in the tax field. MR. STANLEY is a well-known author, whose writings on financial and tax matters have appeared in many publications over a number of years.

AFTER a telephone company or any other public utility files an application for a rate increase with a state regulatory commission, there is an understandable attitude on the part of management to seek prompt action. Procedural problems to one side, what is the impact on the regulatory commission? How is it prepared to cope with the pressure for quick action while conforming with statutory requirements for due process and careful consideration of all factors involved? The HONORABLE WAYNE R. SWANSON, member of the Nebraska State Railway Commission, whose article begins on page 412, gives us some forthright answers to such questions.

PRIOR to entering public service, COMMISSIONER SWANSON was active in the field of sanitary engineering and excavation. He is also a private pilot, who has been interested in transportation by air facilities. He was first appointed to the Nebraska commission to fill an unexpired vacancy. He was subsequently elected for the full term of six years—taking office January 3, 1957.

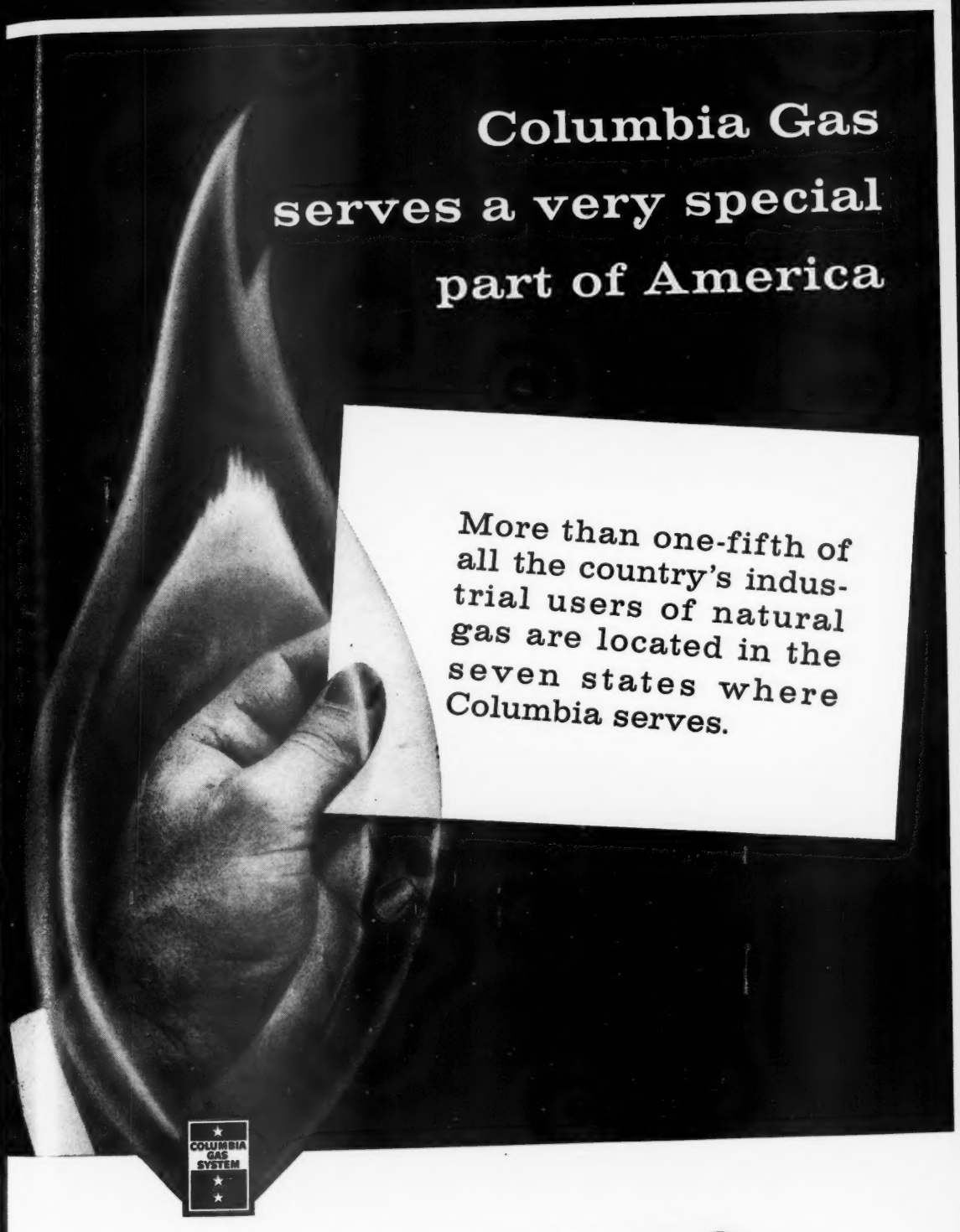
* * * *

THEN there is that ubiquitous word "security" which is getting almost as vague as those much-abused words "propaganda" or "communication" in the various ramifications of special meanings intended by different groups who use it.

To working people, including those just emerging from schools to become part of the labor force, security has come to mean pensions, retirement, and other allied fringe benefits. Needless to say, this kind of security is a real problem for business management. JAMES H. COLLINS, Washington, D. C., author of business articles, in his article beginning on page 416, has made another one of his entertaining "one-man surveys" of how management is taking care of this responsibility.

THE next number of this magazine will be out September 24th.

The Editors



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Coming IN THE NEXT ISSUE

(September 24, 1959, issue)

★

MORE FEDERAL PROJECTS—LINE FORMS TO THE LEFT

As a blueprint for the future, the pending Bonneville Power Corporation Bill (S 9127) is probably one of the most significant developments of the first session of the 86th Congress. It appears to represent the policy-level thinking of powerful political segments associated with the so-called "public power bloc." Francis X. Welch, editor of PUBLIC UTILITIES FORTNIGHTLY, has made an analysis not only of the drastic policy change portended by this legislation, but also of the long history of legislative efforts to convert the business of electric supply and distribution from the area of private enterprise to government operation. It shows that it began with the inclusion of a mild and obscure sentence in the Reclamation Act of 1906, which later came to be known as the "preference clause." Since then, in a step-by-step pattern, the federal government, in the rôle of entrepreneur in the electric power business, has advanced to a position of the number one spot in the nation's power production business. The author also takes a look at where we go from here if the pending legislation should become law in the near future.

JUDICIAL SUPERGOVERNMENT AND STATES' RIGHTS

Writing only in his personal capacity, without expressing any viewpoint on behalf of the California Public Utilities Commission, of which he is the president, Judge Everett C. McKeage has given us a very thoughtful and analytical discussion of paramount importance of judicial supremacy compared with the other constitutional branches. Contrary to the ancient federalist doctrine that a good judge expands his jurisdiction, this author believes that an able judge exercises wise restraint to keep within his jurisdiction. He believes that the Constitution should not take on the coloring of the personal philosophy of each transient majority of the U. S. Supreme Court. He reminds us that the only check upon the exercise of power by the members of the highest court is their own sense of self-restraint.

FERTILE FIELD FOR UTILITIES—AREA DEVELOPMENT

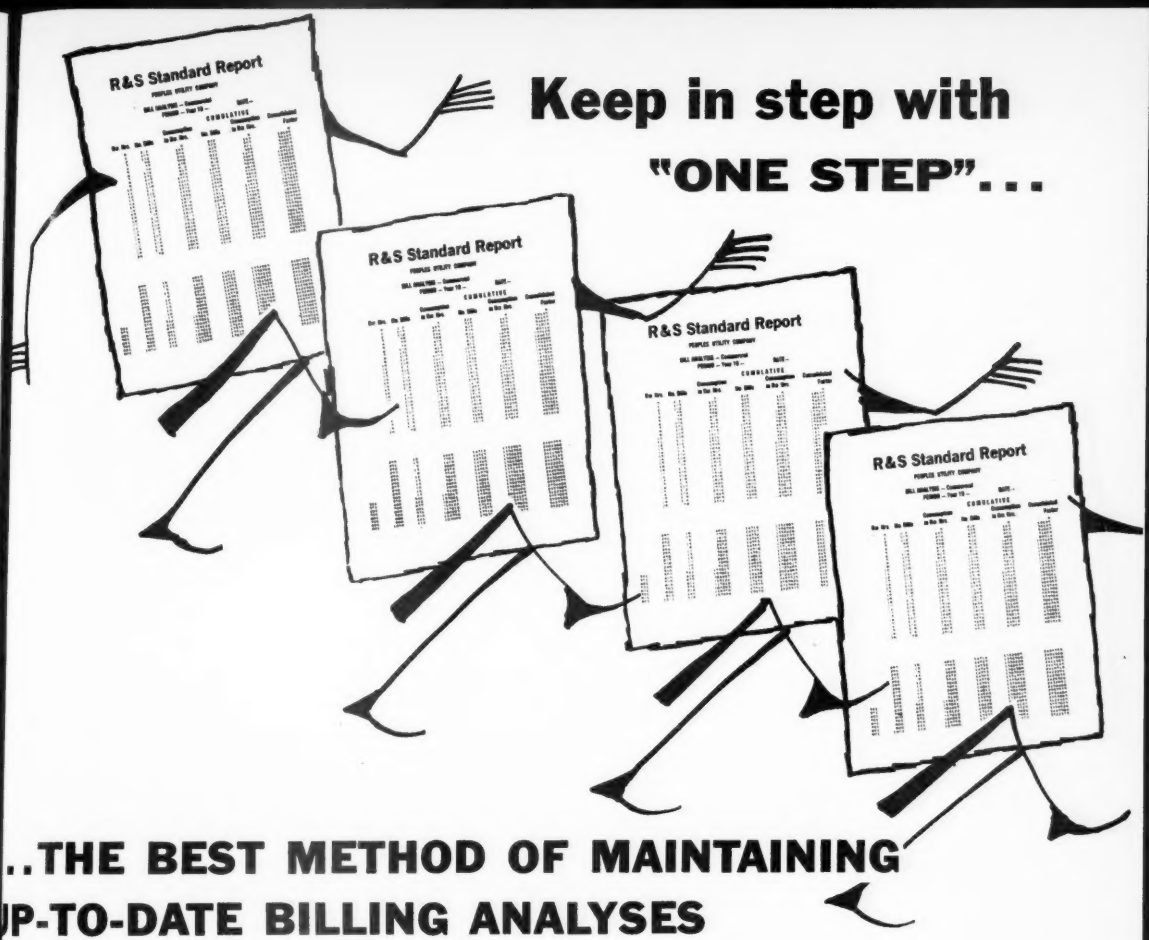
Today most utilities recognize that participation in community development pays off in improved public relations. Not all realize that such activity can also turn into a good source of increased revenue. Actually, what helps the community ultimately helps the utility. New industrial companies, for example, will not locate in a city or town where streets, transportation, housing, educational and recreational facilities are below par. Realization of this fact has impelled many utilities to spearhead attempts at civic betterment. Some have achieved notable success in comprehensive area development programs. Some have failed on the first try. The interesting facets of community "face-lifting" activities on the part of several companies are presented by C. E. Wright, free-lance author, who has made an informal survey of utility performance in the fertile field of area development.

UTILITY ADDRESSES BEFORE THE PUBLIC UTILITY LAW SECTION, AMERICAN BAR ASSOCIATION—APPENDIX

Important addresses on developments during the past year, as well as on current and future problems in the field of regulatory law, were delivered before the annual meetings of the Public Utility Law Section, held in Miami Beach, Florida, August 24th and 25th, contemporaneously with the national convention of the American Bar Association. Full text of these papers will be reprinted in the September 24th issue of PUBLIC UTILITIES FORTNIGHTLY.

★

Also . . . ***Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.***



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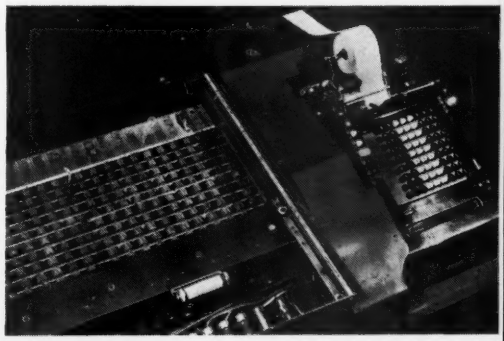

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CALVIN B. HOOVER
Professor of economics, Duke University.

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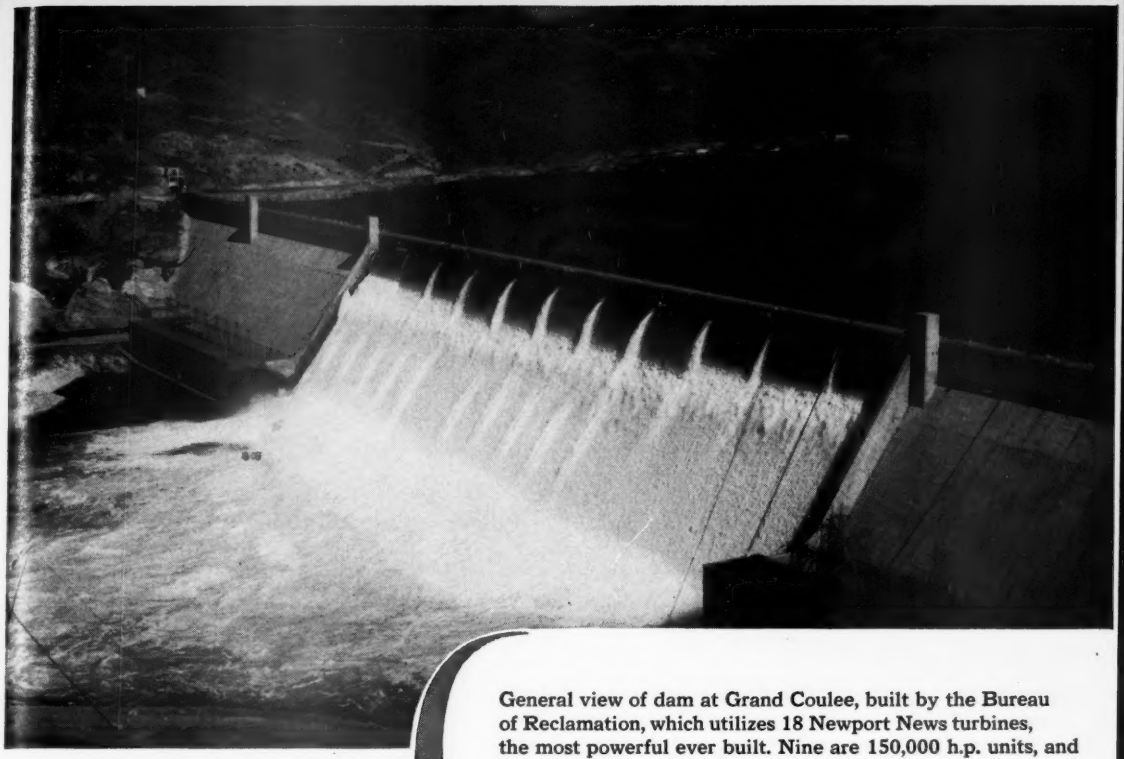
LIONEL D. EDIE
Economist.

". . . during the next two years, the American economy will be under greater competitive pressure from Russia to develop capital expenditures on a more adequate scale. The real race between the two countries is in the field of capital expenditures. These matters have an important bearing on the defense cycle. In three business cycles since the war, the economic troubles have been seriously complicated in this country by sharp declines either in defense expenditures or in defense orders . . . the United States cannot afford to repeat this volatility. There is urgent need for a new pattern of stability in the defense side of the economy."



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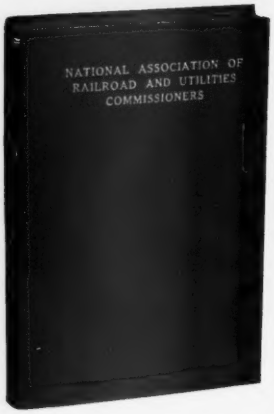

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UTILITIES
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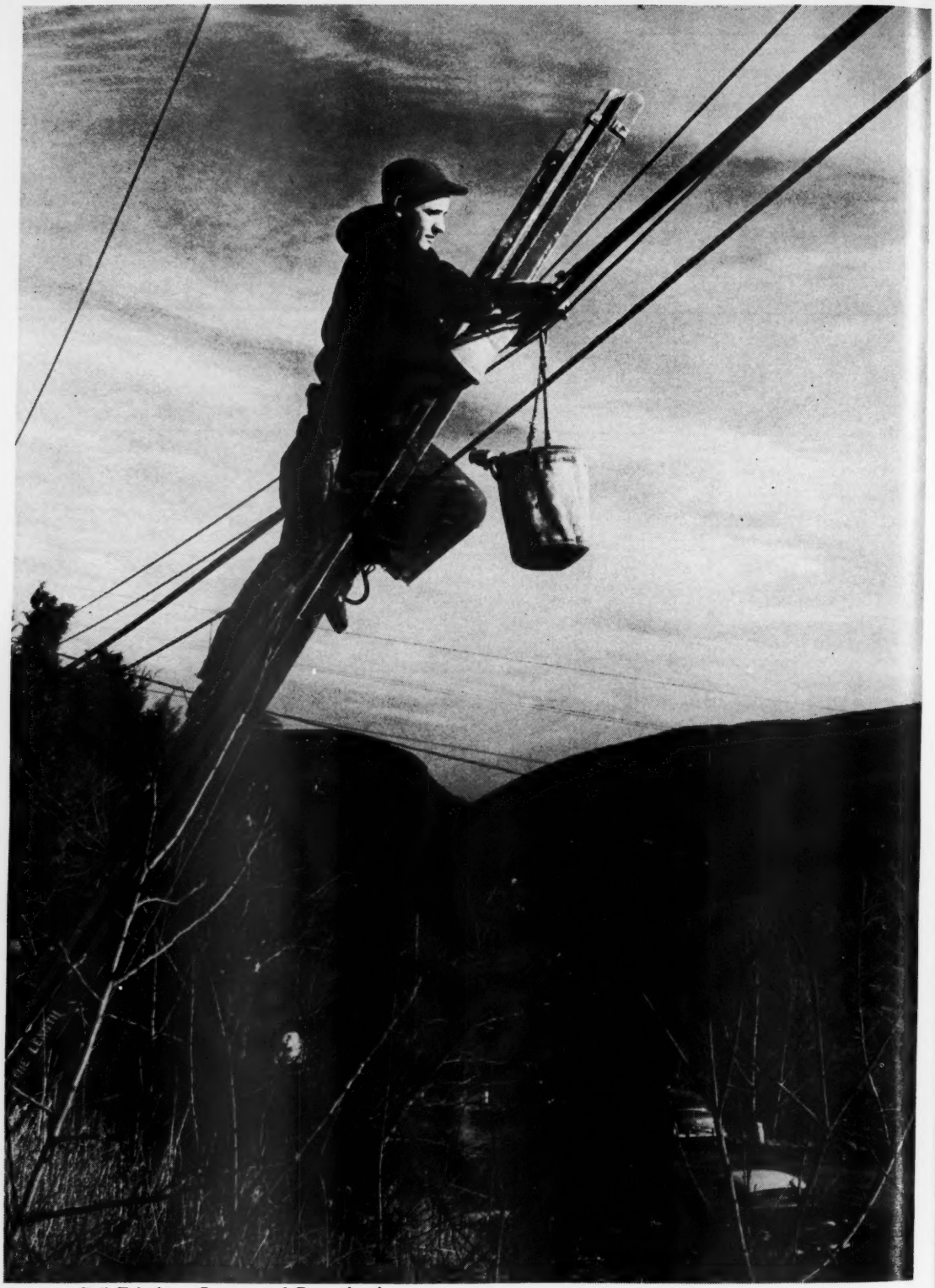
SEPTEMBER

Thursday—10 *American Water Works Association, Missouri Section, will hold meeting, Kansas City, Mo. Sept. 27-29.* ***Advance notice.***	**Friday—11** *Maryland Utilities Association begins annual fall conference, Virginia Beach, Va.*	**Saturday—12** *Northwest Electric Light and Power Association will hold annual meeting, Vancouver, British Columbia, Canada. Sept. 28-30.* ***Advance notice.***	**Sunday—13** *National Electrical Contractors Association begins annual convention, New York, N. Y.*
Monday—14 *Arkansas Telephone Association begins annual convention, Hot Springs, Ark.*	**Tuesday—15** *Texas Mid-Continent Oil and Gas Association begins annual meeting, Houston, Tex.*	**Wednesday—16** *Michigan Telephone Association begins annual convention, Grand Rapids, Mich.*	**Thursday—17** *Natural Gasoline Association of America begins Rocky Mountain regional meeting, Casper, Wyo.*
Friday—18 *Rocky Mountain Telephone Association ends three-day convention, Salt Lake City, Utah.*	**Saturday—19** *Public Utilities Association of the Virginias ends three-day annual meeting, White Sulphur Springs, W. Va.*	**Sunday—20** *American Transit Association begins annual meeting, Minneapolis, Minn.*	**Monday—21** *New England Telephone Association begins annual convention, Bretton Woods, N. H.*
Tuesday—22 *Third Industrial Nuclear Technology Conference begins, Chicago, Ill.*	**Wednesday—23** *Southeastern Gas Association begins annual meeting, Columbia, S. C.*	**Thursday—24** *New England Gas Association begins safety conference, Boston, Mass.*	**Friday—25** *Instrument Society of America ends six-day annual conference and exhibit, Chicago, Ill.*



Courtesy, Bell Telephone Company of Pennsylvania

Direct Dialing Splicer

Stroudsburg, Pennsylvania, recently changed over to direct dialing and this cable-splicing chore by C. C. Sebring, Jr., on a Delaware Water Gap line was part of the all-important transition.

Public Utilities
FORTNIGHTLY

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Liberalized Depreciation After Five Years

By WILLARD F. STANLEY*

What are the major practices among utilities in regard to liberalized depreciation and its second cousin, accelerated amortization? A case study made of 110 electric utilities has revealed some significant treatments. The principles involved are applicable not only to electric companies, but also to natural gas pipelines and telephone utilities as well.

About five years ago Congress enacted the Revenue Act of 1954. This included § 167, providing for liberalized depreciation. In this day and age a detailed description of liberalized depreciation (which, for brevity, will hereafter be referred to as "LD") hardly seems necessary. LD is a method whereby all corporations are given the option to write off, as a deduction for federal income tax purposes, the cost of new equipment installed after January 1, 1954, more rapidly in the earlier years of its life and in gradually reduced amounts over the later years thereof. If income tax rates remained static for the entire life of such property, and the company continued to have taxable income each year sufficient to absorb that year's depreciation deduction, there would be no saving in taxes from LD, but merely a deferral of taxes.

However, corporations would have the

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important advantage of the interest-free use of the deferred taxes during the period of deferral. This was the purpose of the provision; *i.e.,* to stimulate expansion by facilitating the financing of new equipment by reducing income taxes currently. For short-lived property, such as that of many industrials, with lives of five to ten years, the financial aid is paramount. With long-lived equipment, such as that customarily installed by utilities, the financial aid is insignificant but the deferral period is greatly extended so that the saving in the cost of money represented by the deferred taxes becomes substantial.

WHAT has happened under this situation in the first five years of its operation? What policies are state regulatory bodies pursuing as to the treatment of LD for accounting and rate purposes? How does the accounting profession regard the matter? Are most utilities making use of LD? These are a few questions that immediately suggest themselves.

Perhaps because of the five-year anniversary of LD, there has been a concentrated revival of interest in this subject in recent months. For example, it was thoroughly discussed at the accounting conference of the Edison Electric Institute and American Gas Association held recently in Chicago. A survey was also recently made of the views of security analysts with respect to what weight they would give in valuing utility common stocks to the taxes deferred under LD under the various accounting treatments of this method. Then on June 17, 1959, there was released an Institutional Research Study, prepared by Goodbody & Co., investment dealers of New York city, giving a comparison of methods used by 110 electric utility companies in accounting for benefits derived from LD.

In the regulatory arena, the New York Public Service Commission, in mid-April, 1959, issued an order as to the handling of the matter, while hearings are in progress before the Securities and Exchange Commission in Washington and the California Public Utilities Commission with respect to various aspects of these controversial issues.

THE Goodbody & Co. study covers only electric utilities and while this industry probably comprises the greater amount of all property involved as to all utilities, it does not cover the policies and procedures of two large segments of utility operations; *i.e.,* natural gas pipelines, where practically all additions readily lend themselves to LD treatment, and the telephone industry, which also has considerable additions available.

However, apart from the matter of adopting LD, where each industry has free choice, the accounting and other treatments are probably much the same in the last two mentioned utility industries as with respect to electric companies, since they are all bound by the state commission where they operate, or, lacking commission orders, by the official pronouncements of the accounting profession. Incidentally, it was stated at the Chicago accounting conference that none of the AT&T subsidiaries have to date adopted LD.

Two Principal Treatments for Accounting and Rates

THE first and most popular of these in terms of electric utilities (and prob-

ably, therefore, of all utilities) using LD, is what has come to be known as "normalization." Under the normalization treatment, the reduction in taxes, due to the tax deferrals to future years, is offset by a deduction from income usually designated "Provision for Future Income Taxes," or "Provision for Deferred Taxes," or some similar name, of an amount exactly equal to the tax reduction from LD. The effect is that net income remains unchanged.

This "provision" (whatever its name) is credited on the balance sheet either to (a) a reserve for future taxes, (b) an account entitled "Accumulated Deferred Taxes" (much the same, in substance, as "(a)")—or (c) to a special restricted surplus account which is usually designated as not being available for payment of dividends. Since there is no effect on income under normalization, there is, accordingly, no impact on rates.

THE alternative method has come to be known as "flow through." "Flow through" can mean either (a) the flowing through of the tax reduction from LD to increase the net income of the utility. This could be called "flow through for accounting only." Or it can, and usually is, intended to mean a flow through of the benefits of LD to reduce rates of consumers. This might be called "flow through for rate purposes." Under normal rate reduction procedure a determination is made of the amount of lower rates necessary to reduce corporate net income to the permitted rate of return on the agreed rate base.

UNDER this method where LD is employed and normalization is not used, the tax reduction from LD is bound to end in the pockets of consumers in any rate case, unless income from this tax reduction is specifically excluded from the company's income in making the rate computations. In actual fact, a bit over twice the amount of the reduced taxes from LD will have to be transferred to customers to allow for the reduction in federal income taxes that will inevitably follow the rate reduction. Therefore, specific exclusion of the LD tax reduction is necessary if "flow through for accounting only" and not "flow through for rate purposes," is to be followed.

Normalization *versus* Flow Through for Accounting Only

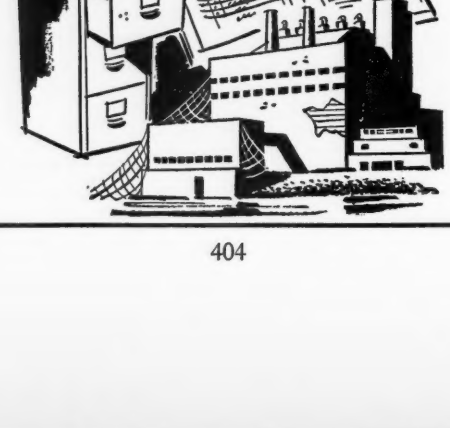
LD must be considered as a sort of second cousin to accelerated amortization under the Revenue Act of 1950. This latter provision was inserted to stimulate expansion for national defense in connection with the hostilities in Korea. The Goodbody study covers accelerated amortization (which, for brevity, will hereafter be referred to as "AA") as well as LD. Under AA not a single utility uses any kind of "flow through." "Normalization" is uniformly employed as to AA with 63 companies crediting the provision for future taxes to a reserve or its equivalent and 31 companies crediting a restricted surplus. It should be borne in mind that these treatments of AA were established long before LD was even thought of.

IT was natural, therefore, that utility management should feel that the new "second cousin" logically should have the same treatment. But in stressing the sim-

ilarities of the two methods—*i.e.*, both are designed to stimulate expansion, both call for writing off property faster than customary for tax purposes, etc.—the differences between the methods were overlooked or minimized. Among these differences are: (1) LD is available by law to all corporations—AA only to those proving their expansion is necessary for national defense, (2) the write-off period is five years for AA, the entire life expectancy of the property for LD. Thus the benefits of AA would terminate in a relatively few years (in fact these benefits are fast reaching conclusion as to utilities), whereas benefits from LD extend over a long period of years, more than fifteen in the case of public utilities.

ALSO, in the case of continuously expanding industries, such as utilities, it is doubtful when the tide will turn and total taxes increase because of lower aggregate depreciation deductions. For instance, it is mathematically provable that if a utility continues to make the same amount (not percentage) of additions year after year, and adopts LD as to all these additions, the interest-free use of the deferred taxes would continue into infinity. For these reasons, it was natural, after study, that regulatory bodies and others should view LD in a substantially different manner from AA.

ASSUMING FLOW THROUGH could be limited to accounting only and note affect rates—admittedly an optimistic assumption—should utilities favor flow through or normalization? There is much to be said on both sides. For instance, if flow through for accounting only were adopted, a regulatory body could reverse itself subsequently and apply the flow through to rates also. Normalization does not give the utility more net income, but it gives it interest-free use of the deferred taxes for a considerable period—a substantial amount of "costless" capital. Where the "provision" for future taxes is credited to restricted surplus, about half the security analysts covered by the recent survey indicated they would include deferred taxes from LD in common stock equity in calculating corporate capitalization.



Flow through for accounting only would give the company, not only the same free use of the deferred taxes, but an income increase for many years while the depreciation deductions remain high. About two-thirds of security analysts indicated they would include deferred taxes from LD as a part of common stock equity if the utility used flow through. Two-thirds also held they would include the LD income in per share earnings on common stock.

However, regardless of which method seems to present the greater attractions, it appears that only in exceptional cases will utilities be free to make this decision as to normalization or flow through. Where a state commission order applies, it must, naturally, be followed. The same is true of interstate situations (like the natural gas pipeline) subject to FPC order.

Where there are no state or federal regulatory bodies, or where such bodies have not yet reached a decision in the matter, utilities must conform to Revised Accounting Research Bulletin No. 44 recently issued by the committee on accounting procedure of the American Institute of Certified Public Accountants. This bulletin is binding on the accounting profession for practical purposes. It revises original Bulletin No. 44 issued in October, 1954. The latter permitted corporations to flow through the deferred taxes from LD to income if they wished. The revision reverses this position and holds that provision should be made for deferred income taxes (or, in the alternative, additions made to amortization or depreciation accounts), provided (1) depreciation on the books is taken at a different method than one of the permitted methods under LD, and (2) if the amount of deferred taxes from LD is material.

As to the first condition, it is believed that utilities have unanimously adhered to straight-line depreciation for book purposes when they adopted LD or AA. As to the second, a statistical table prepared from the Goodbody study indicates that for 1958, tax benefits from LD per share of common stock of 74 electric utilities, as to which information was available, amounted to over 10 per cent of total per share common stock earnings for that year. Five per cent is the customary figure used by SEC to determine materiality. Therefore, it appears that if the average is over 10 per cent it can reasonably be expected that a substantial majority of the utilities involved would show more than the 5 per cent minimum.

For these reasons, it appears that at least the great majority of electric utilities (and probably those of other categories also) are presently controlled as to their accounting treatment of LD either by commission orders or the institute bulletin. The bulletin contains certain exceptions to its general rule but they should apply only to a few utility companies.

Summary of Goodbody & Co. Study

Of the 110 electric utilities included in this study, the following tabulation shows (a) the percentage of these companies adopting LD and AA, respectively, (b) the percentage of such companies using various accounting treatments, and (c) the same type of percentages as (b) except shown in relation to companies adopting LD and AA rather than to all 110 companies. (See table, page 406.)

While the Goodbody study does not show whether the utilities are using a particular method pursuant to commission order or without such order, by their own choice, the writer believes it fair to assume that as to the 24 cases where flow through is used for LD the great majority of these companies are employing this method pursuant to commission requirements. Generally speaking, normalization has been the preferred method of accounting with the utilities, both as to LD and AA. Therefore it seems reasonable to suppose that where flow through for LD is used, it is at the behest of regulatory authorities.

How about Flow Through for Rate Purposes?

DESPITE the fact that a considerable number of regulatory authorities have adopted or are considering adoption of flow through for rate purposes (New York and Pennsylvania are the large states so far), several serious objections are involved in this treatment. At the recent joint accounting conference in Chicago, the consensus seemed to be that the trend was in the direction of flow through for rate purposes and that the cause of normalization was a lost one. The latter fear seems somewhat inconsistent with the fact that of 85 companies using LD, 73 per cent are using some form of normalization—probably with the approval or blessing of their regulatory authorities in a substantial majority of cases.

But considering how objectionable the flow through for rate purposes is, it hardly seems that complete surrender should yet be made to this method. It is not merely objectionable to the utilities from a selfish standpoint, but appears to involve a moral (and perhaps a legal) wrong, plus an economic monstrosity so fantastic as to be well-nigh incredible.

THIS method is immoral because it nullifies the intention of Congress to permit all corporations (including utili-

	Percentage of 110 Companies		*Percentages of Companies Adopting*	
	LD	AA	LD	AA
Not using LD or AA (number of companies 25 in each case)	22%	22%*	—	—
Using normalization with "provision for future taxes" credited to a reserve (number of companies 46 LD, 43 AA) or to "Accumulated Deferred Taxes" (number of companies 8 LD, 13 AA)—*i.e.*, treated as liabilities in each case	48%	50%	62%	65%
Using normalization with "provision for future taxes" credited to a restricted surplus (number of companies 10 LD, 31 AA)	9%	28%	11%	35%
Using flow through (number of companies 24 LD, 0-AA)	21%	0	27%	0
	100%	100%	100%	100%

*Use of AA is limited to cases where corporations can convince the federal authorities that the additions as to which they make application are necessary for national defense. In this respect it differs from LD which is open to adoption by all corporations at their option.

ties) to obtain the benefit of interest-free funds from the deferral of taxes to later years. If these deferred taxes are handed over to consumers, the purpose of the statute is canceled out. Were we dealing here with AA, instead of LD, it might be argued that Congress had not intended that the benefits should extend to rate-regulated utilities; and, had it thought of it before the enactment, it would have excluded utilities from the operation of the law.

BUT for years before LD was enacted, numerous arguments and hearings before public bodies, such as FPC, SEC, and many state commissions, were held, at which the propriety of the includability of utilities was discussed. It seems incredible that the federal Treasury, and congressional members of the pertinent committees, did not become aware of some of these discussions and contentions and thus have this matter in mind when LD came up for consideration. In the light of what had previously transpired, the action of Congress in making no exception as to utilities seems conclusive evidence of its intention and desire that utilities should share in the benefits of LD to the same extent as all other corporations.

FLOW THROUGH FOR RATE PURPOSES involves an economic monstrosity because (as above indicated) in a normal rate proceeding, net income comprising the deferred taxes under LD would be treated the same as any other portion of the utility's income. In order to divest the utility of its excess income (including that derived from LD), it is necessary, under the existing 52 per cent corporate income tax rate, to reduce customers' rates by $2.08 for each $1 of income arising from the taxes deferred by LD, so that after deducting the 52 per cent tax saving which the utility will automatically derive by reason of the rate reduction, it will have income equal to the allowed rate of return on the accepted rate base. This means that in addition to each $1 of deferred taxes, which Congress intended to defer to aid corporations in expansion for the benefit of our national economy, there will also be deferred (for the same period) an additional $1.08 (104 per cent of the intended deferral), thereby severely penalizing the federal Treasury, and, indirectly, all federal taxpayers, and substantially reducing current tax revenues.

DUE to the functioning of the rate operation the Treasury is required to bear the cost of carrying over twice the amount of deferred taxes which Congress intended in enacting the legislation. Just how much additional loss in current tax revenue would result to the Treasury from applying flow through for rate purposes is difficult to estimate, but it is reasonable to assume that it should be substantial.

Also, it will inevitably increase annually as more additions become subject to LD, as more commissions adopt flow through for tax purposes, and as more and more rate cases translate the LD income into rate reductions for the consumers.

ONLY about 50 per cent of the $1.08 excess deferrals would result in penalization of the Treasury since it is reasonable to suppose it would recover the

reduced taxes of the utility from corporations which are commercial and industrial customers and whose income is increased and taxes increased accordingly, because of the fantastic functioning of the rate-making procedure. But no recovery is possible as to residential and most rural customers, where lower rates do not mean increased taxable income.

Rate Reduction and Flow Through

It may be contended that residential utility customers and individual income taxpayers are largely the same people. The graduated tax rates alone prove the fallacy of this supposition. In the personal case of the writer, his landlord pays all utility bills. A rate reduction would not be passed on to the writer in reduced rent, but, theoretically at least, he would be called upon, as a federal income taxpayer, to make up the loss in Treasury revenue by increased payments of personal federal income tax. For this reason he believes that he and all others similarly situated have a right to protest against the adoption of flow through for rate purposes by the state commission.

Various compromise treatments have been suggested as to flow through for rate purposes. These may prove advisable in those jurisdictions where abandonment of this principle in its entirety appears impossible, on the theory that a half loaf is better than no bread. However, any compromise would still transfer to consumers benefits which it was the intention of Congress should go wholly to the corporation, and thus smack of immorality in partially nullifying the intention of Congress.

And while such compromises may mitigate, they cannot eliminate the absurdity latent in penalizing the federal Treasury through lowering its tax revenues in connection with the transfer of benefits to customers.

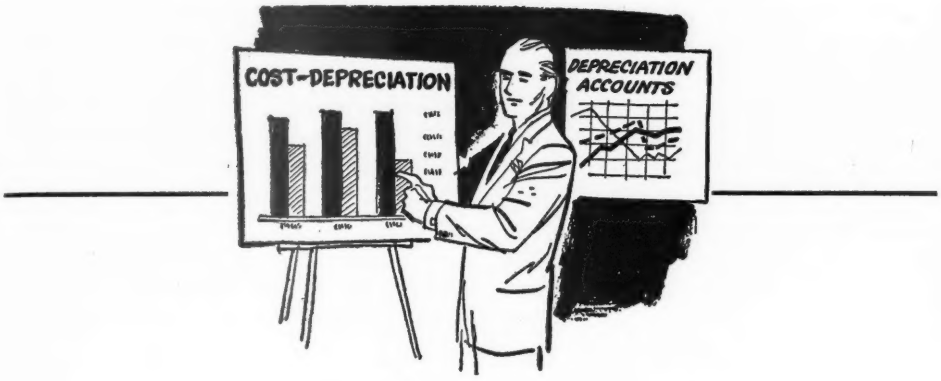
It would appear that the federal Treasury and the IRS, as vitally interested parties, would wish to present this matter to state commissions considering adoption of or which have already adopted flow through for rate purposes. Certainly the utility industry has the right, and even the duty, to use every legitimate means to end this immorality and absurdity, by presenting its case as strongly as possible to the pertinent commissions, to Congress, and, where it seems advisable, to the general public. It may not yet be too late to persuade some of the utility regulatory commissions to listen to reason.

Why Not Adopt Liberalized Depreciation?

According to the Goodbody study, 25 electric utilities, plus an unknown number of natural gas pipelines, telephone companies, and other utilities, have not adopted LD. About half of these 25 electric utilities have been using AA. Why this fairly widespread failure to take advantage of important benefits obtainable under § 167?

While this writer is not aware of any available figures on the subject, he believes the percentage of industrial corporations not adopting LD would prove very much smaller. Of course, the industrials have no rate problems and can be sure of getting the full benefit of the statute.

LIBERALIZED DEPRECIATION AFTER FIVE YEARS



Benefits of LD Do Not Automatically Result in Adopting Flow Through for Rate Purposes

SOME UTILITIES—in states which have adopted or are expected to adopt flow through for rate purposes—may feel that adopting LD will give the utility no benefit under these circumstances. Others, in states which have not yet reached a decision, may be waiting to see which way the cat will jump. Even in states adopting some form of normalization there may be fear that this policy may be reversed in view of the apparent trend in the direction of flow through for rate purposes. But there may not have been full realization of the fact that merely adopting the principle of flow through for rate purposes does not automatically give the utility the benefit of LD. **This occurs only if and when an actual rate case arises.**

THERE must be a considerable number of the electric utilities not yet adopting LD whose rate of return and prospective earnings are such that it is reasonable to expect that after allowing for the taxes deferred by LD, neither an application for a rate increase nor action by the commission for a rate reduction is likely to occur for a number of years, perhaps many.

If a company with $20 million of annual additions applicable to LD adopted that method in 1954 and continued to do so each year as to current year's additions, the accumulated deferred taxes, at an assumed money cost of 6 per cent overall, would aggregate approximately $270,000 for the five-year period, *assuming there was no rate case therein.* Rate reductions not being retroactive, this benefit would inure to the utility permanently, even if rates were reduced immediately after the five years. Naturally, the amount of these benefits would increase with each year after five during which no rate case arose.

IN addition to fear of loss of benefits of LD there is the matter of paper work incident to its adoption. No doubt some trouble and expense will be involved, in segregating and identifying the classes and

items of property as to which LD is claimed, but where annual additions are large in dollars, the benefits would unquestionably far outweigh the trouble and cost of keeping such separate tax records. Corporations are free each year to pick and choose the classes of property or items in each class as to which they elect to adopt LD, but the right to adopt this method is forever lost as to additions not designated for adoption in the utility's income tax return for the year in which the additions were completed.

Companies using AA already have had to segregate items subject to this method, and will have to do so as to items which are subject to AA but have not yet been completed. Therefore, there would be no extra trouble in adopting LD as to the uncertified portion of these AA items completed in 1959 and subsequent years. It has been customary to certify for AA between 35 per cent and 55 per cent of the total cost of utility projects. The balance is subject to LD at the company's election, the same as any other additions.

A $50 million turbine installation, certified for AA to 50 per cent would enable a utility adopting LD as to the uncertified portion to realize a net economic benefit over an assumed 40-year life of this item in excess of $3.7 million, assuming an overall money cost at the conservative rate of 5 per cent.

It is evident from the foregoing that the impact of flow through for rate purposes will vary radically both as between different utilities and as between different types of utility operations. The natural gas and telephone industries would, generally speaking, appear to have less to gain from adopting LD under these circumstances than the electric utilities, since the former are accustomed to fairly frequent rate controversies, whereas electric utilities have comparatively few rate cases pending at any time.

There are too many variables for accurate general recommendations, but it is urged that utilities which have not yet adopted LD re-examine their position in the light of recent developments and of what has been said above, and see if they may not find justification for adopting this method.

There is another reason for adopting LD in states following flow through for rate purposes. That is the possibility that the commission may hold that it will compute income of the utility for rate purposes as if it had adopted LD even where it has not done so. Such a position was indicated by the New York commission. Whether it would be upheld by the courts may be open to question, but it appears that the chief executive and top financial officers of utilities operating in states where such a condition prevails might possibly subject themselves to personal liability from suits of stockholders if they failed to adopt LD under these circumstances. Such suits, too, might be defeated by the courts, but it does not seem fair to ask company officials to take such a chance.

By Any Other Name?

The writer long has considered the term LD an unfortunate one, since it carries a connotation of generosity, openhandedness, and liberality, with the implication to the uninformed that Congress has been generous and liberal with

the corporations in granting LD. Actually, of course, the benefits to corporations are incidental, the primary purpose of Congress being to aid permanently the nation's general economy by continuously stimulating expansion. "Accelerated" is obviously the accurate word for this method, but this was impracticable because of AA.

The writer used the term "rapid" in his book on this subject (*"New Rapid Tax Depreciation*—How to Use It Profitably") published February, 1955, by Prentice-Hall, but this term never attained popularity. A solution may be that AA will be terminated as to utilities in a very few years, and when this occurs, the term "accelerated" can be substituted for "liberalized" without danger of the confusion which would ensue if both methods were presently given the same initial designation.

The Power to Tax

"WE often forget that the taxes levied by our governments aim not only at raising revenue but also at other purposes. Taxation today is the favorite weapon of interventionism. Federal income taxes, for instance, undoubtedly are intended to yield some revenue but they also aim to bring about greater equality of wealth and income. . . . Some affect various sectors of production and trade. Others change business customs and conduct. And, finally, still others aim at controlling or changing our economic system. In far too many cases, the revenue accruing to the government treasury is an insignificant side effect of taxation. . . . The taxes that are to control or change our free economic system are directed against its very foundations: the profit incentive and capital accumulation. . . .

"Progressive income taxes and business taxes diminish the incentive to work. . . . Without the pecuniary incentive, fewer young men will choose a career requiring long and costly preparation or connected with uncertainty and risk; and this tends to reduce the supply of such labor, thus impeding economic progress.

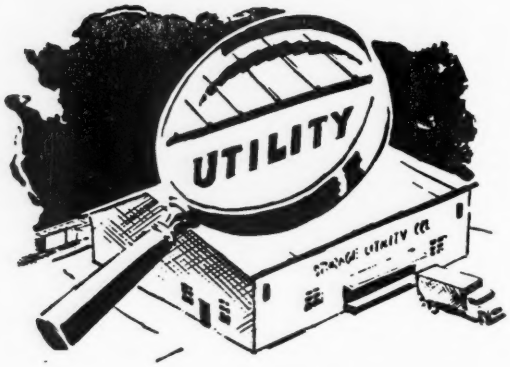
"It is no coincidence that throughout the capitalist era the most energetic and ambitious men in America went into business and became founders and promoters of successful enterprises. On the other hand, socialist and interventionist societies offer to the ambitious little choice beyond the military services, a political career, or emigration to a capitalist country. . . .

"Business profits and losses are the signals of the free enterprise system. A profit indicates that the businessman is efficiently satisfying the needs of consumers. Profits not only encourage but also provide the means for expansion. Losses, on the other hand, indicate to the businessman that his costs of production exceed the market price of his products and that he must produce more efficiently or else face bankruptcy.

"Taxes on profits interfere with these important signals. They weaken the signal of encouragement to a profitable business and confiscate the means needed for expansion. Thus, taxes frustrate the adjustment the market demands, destroying the dynamism of competitive enterprise, protecting inefficient operators at the expense of more capable competitors. The capitalist economy thus loses its characteristics of quick adaptability, managerial efficiency, and keen competition. The fundamental pillars of the free market are dangerously weakened by the present taxes on business profits."

—HANS F. SENNHOLZ,
Head, department of economics, Grove City College, Pennsylvania.

A State Commissioner Looks at the Telephone Industry



By the Honorable WAYNE R. SWANSON*
MEMBER, NEBRASKA STATE RAILWAY COMMISSION

With clear insight and objectivity, the author pinpoints some of the weak spots of the telephone industry. In a spirit of friendly helpfulness he gives ideas on what must be done to improve its relations with the public and regulatory agencies, and to achieve its fullest stature in the growth years ahead.

THERE is no place on earth where any industry has had growth comparable to that which the telephone industry has experienced in our nation. The people of the industry are entitled to much of the credit for this growth, but they are not entitled to all of it. Neither is all the credit claimed for government.

Here are a few ways in which I, as a state regulator, feel the telephone industry can be improved in the public interest:

The telephone industry's public relations are not the best. There is much room for improvement. Why do telephone companies feel it necessary to withhold facts from their subscribers concerning rate increases? Why do they not explain to them the facts and circumstances necessitating rate increases and stop hiding behind the commissions? They deceive none but themselves when they fail to face up to facts.

THE telephone industry will have to extend its service to all who desire it. Sparsely populated areas are entitled to communication service without resort to use of the smoke signal, or construction of their own plant. If private industry will not do it, the "Great White Father"

*For additional personal note, see "Pages with the Editors."

will, as evidenced by the REA's already in use and those in prospect. Must the telephone industry stand still until it suffers the fate which befell another utility in Nebraska some years ago?

DOLLAR return on investment is not the correct measure of adequate service to subscribers. That measure is shortsighted, selfish, and will ultimately lead to ruination. Investors should earn a reasonable rate of return on their investment; labor and management should be adequately paid, but by all means avoid overemphasis. Telephone companies would do well to re-examine their overall policy more often.

Exchanges located in defined areas and established boundaries with limited numbers of subscribers may find it necessary to consolidate with other exchanges for their earning potential is not sufficiently large to enable them to survive for long; they cannot pay wages which will attract and keep the required numbers of skilled and competent employees to carry on operations and they cannot obtain loans of size and amount for modernization of plant and equipment. It seems to me that the large companies will be able to survive, but the smaller ones are doomed to perish.

Has the telephone industry ever studied carefully and thought through to a logical conclusion the effect upon its companies of the provisions of the statutes relating to service and area set forth in § 96-213 Reissue of the Revised Statutes of Nebraska? If not, it would be well for it to do so at once, for as a distinguished American one time said, "The forces which can destroy the huts of the humble, will one day raze the mansions of the mighty."

INCREASED revenues resulting from use of modern scientific equipment will have to be shared with telephone subscribers, akin in manner and method to the plan developed by Henry Ford, one of America's greatest industrialists.

Industry should acquaint regulatory agencies of government with its difficulties, its problems, and its future plans. The Nebraska State Railway Commission has always felt this to be in the public interest and it has always been its policy to invite co-operation. The response has left much to be desired. I level no criticism whatsoever at industry for its aloofness.

I think I understand full well why a "Goliath" is loath to even visit with a "Pygmy." It is readily understandable why governmental agencies become pygmies when it is remembered that legislatures fail, neglect, and refuse to make adequate appropriations sufficient in amount to attract and retain necessary numbers of qualified personnel. What if the individual commissions would take the same attitude towards the telephone companies as does the budget committee of the legislature.

The budget committee of the state legislature says, in short, that money appropriated for professional personnel, such as statisticians, accountants, engineers, and attorneys, is unrealistic. What would you think if the Nebraska State Railway Commission would subtract such salaries from the overall cost figures in its decision on a rate matter?

I do not know why legislators are so persuaded.

Should Industry Help Regulators?

I THINK I know why industry specialists and technicians shy away from regulatory commissioners and staff members of these commissions. Is it industry's problem to see that proper appropriations are made available to regulators? The answer is "yes" to some degree, at least. What affirmative duty in law devolves upon the telephone industry to lobby for commission appropriations? There is no prohibition in law against the telephone people appearing before the budget committee of the legislature to testify to the needs and requirements of the commission. But the industry is always conspicuous by its absence at budget hearings for the railway commission.

This objection might be raised: Since telephone companies have to get commission approval for all their rate increases, it would not look good for them to appear in support of the commission budget. Such arguments have been made in times gone by and they are equally impotent, illogical, and nonsensical today as they were yesterday. If it is inherently wrong for the telephone industry to appear in support of commission requirements before legislative committees, how can one justify coddling individual legislators and appearances before other legislative committees in other matters affecting, either directly or indirectly, the industry?

Telephone Industry Fairly Treated

MY investigation of the official records of the Nebraska State Railway Commission shows that the telephone industry has been treated most fairly throughout the years; moreover, the industry received liberal treatment.

Whenever an application for a rate increase is filed by a larger company, pressure is applied from every conceivable source to have the application set at once for immediate hearing. The ink is scarcely dry on the court reporter's tape when the chant goes up to "Hurry, hurry, hurry" with the transcript, and to "Rush, rush, rush" the order. All this goes on and on and on when it is well known that the staff is undermanned and the commissioners are literally snowed under with all the other official duties.

If that were not enough, the state legislature comes along with a measure to require a decision within thirty days after completion of the hearing, and all the while the legislature fails, neglects, and refuses to make appropriations to hire competent help in sufficient numbers to perform the work. Along with this handicap are bitter attacks on the qualifications of commissioners. The public is privileged to criticize its public officers, and that is to be expected, but such criticism comes

with poor grace when it is inspired by those who seek to serve a selfish motive, or curry favor with higher-ups in the company, or to save face with superiors.

Just a very small percentage of the loss occasioned by regulatory lag would go far toward acquiring and maintaining a competent staff which would at all times guard against lag and resulting waste.

Other States Have Regulatory Lag, Too

If telephone rate orders seem to be slow in coming from the Nebraska State Railway Commission, let us consider what goes on in other states, particularly in the state of Louisiana. It was the privilege, a short while ago, of one of my colleagues and myself, to hear evidence presented in the Louisiana case. It was a thrilling experience to witness, for a change, competent staff people going about their work with nothing crammed down anyone's throat from either side of the table.

I have since kept abreast of the progress of that case before both the Louisiana commission and the Louisiana courts. After more than two years, the rates applied for are not in effect. The courts have consistently upheld the orders of the commission. The end does not appear to be in the immediate future.

We, in positions of responsibility on the Nebraska State Railway Commission, have much too high an opinion of the men charged with high-level decisions in the telephone industry to place credence in the oft-repeated comment to the effect that they feel a strong commission and an able staff would make rate increases harder to obtain. The industry faces one of the most difficult problems ever to confront utilities. People always have, and most likely always will, move and talk. They move, largely, by for-hire carriers. They are presently moving farther and faster around the world and into outer space than ever before in the history of mankind.

By means of telephony man is able now to talk over great distances and with considerable dispatch, but, in my opinion, the telephone industry has not kept pace with the carriers of passengers and property in bringing to the people the improvements for which they have the money to pay. Unless telephone companies employ greater industry, enlarged vision, and increased service at reduced prices, people will travel more and talk less over for-hire facilities.

The American people have the greatest earning ability of any people ever to inhabit the earth. They have the money to buy what they want. They will spend it freely when they can get value received. They have shared, gratis, with the people of the earth. They have given away more money, goods, and materials in the short space of our national life than has any other combination of people throughout all history.

The American people are generous but they will not be hoodwinked. Their goodness flows within their veins along with their lifeblood; thrift is their heritage. Their demands are great and exacting, but they are willing to pay for all they demand. They are now demanding improved and modern service from the telephone industry. Will it serve them or will it fail them?

Everybody Is Talking about *Security!*

By JAMES H. COLLINS*

Employees seek jobs with companies that will pay a pension on retirement. Management has the security problem of keeping such companies alive. Together, they are on the same team, facing our razzle-dazzle economy. So, security could be a fruitful subject for discussion—especially for utility people, who stand high on security plans.

THIS word "security," so much tossed around lately, appears to be opening up a new field of management-employee interest. A fresh channel for what has been dubbed—rather ponderously—"employee communications."

Especially for utility company relations people. It also has public relations angles worth exploring.

Security means many things to many people, but in utilities, both employees and management meet on a common ground. Like the Irishman who had to run like hell to stay where he was, they are trying to keep up with our kaleidoscopic economy.

The average, or typical, or general utility employee, the one you know, gets himself the education needed to land a telephone, power, or gas company job, on technology. He hopes to advance as he gains experience, will shoulder responsibility and retrain for other jobs as they develop.

He wants to work for a company in a line of business that is permanent, not likely to go bankrupt, be merged, or to be supplanted by change. At the end, he wants a pension ample enough to let him play golf,

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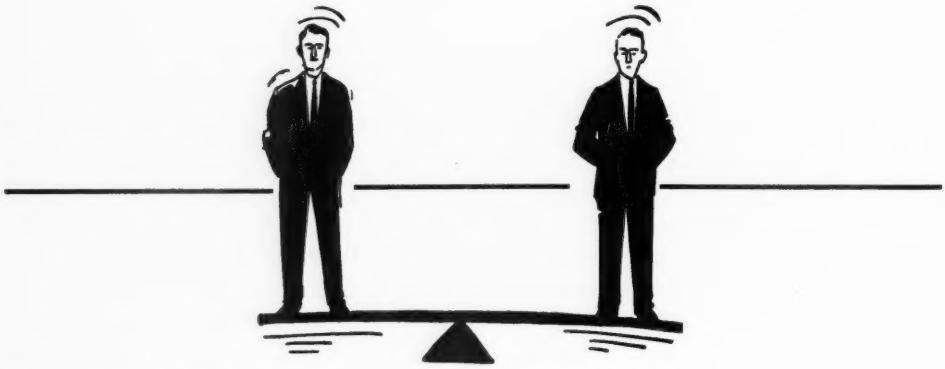


fish, pursue hobbies, perhaps even travel.

To management, security means maintaining that kind of job in that kind of company. It must keep abreast of the times, improving plant, products, processes, services, and, in the case of utilities, doing it with research as well as money, because its money is limited by regulation.

For this, management needs a high-caliber work force, and this is a trend of the times found in other lines of business. For an illustration, turn to the pages and pages of the new kind of "Help Wanted" advertising in newspapers and technical magazines, seeking engineers, scientists, and technicians of kinds that were unknown even a dozen years ago.

If management were to talk about its own security hopes and plans, it would interest listeners out in the shops, because they are planning and hoping to the same end.

There might be interested customers, and the public generally, because everybody is running like the Irishman.

Our Razzle-dazzle Technology

This country's pace industrially and in living standards, since war's end, has been frightening. Utility services furnish examples:

Telephony has taken such seven-league strides toward push-button service that, if the operating and maintenance crew of a generation ago were brought into the exchange of today, it would hardly know where to take hold. The telephone crew of today will be just as outdated tomorrow—which is probably ten years. There are intensive retraining programs needed to keep telephone employees up to the times, and there is the new selling and merchandising spirit.

Electricity and gas have developed radically new devices for heating and air conditioning, and are fighting a new war, prodding their customers to higher standards of living, and working, and doing business.

The young utility employee, having qualified by education and found a power company job, buying a house, would not be satisfied with one such as he was born in. He will consider a heat pump an absolute necessity. It now calls for an investment that might have bought the cottage his grandparents lived in. But it is economical in household expenses, and besides, contributes to health as well as comfort. And appliance engineers are constantly bringing down the cost, to reach wider markets.

If the young breadwinner's job is with a gas company, there will be comparable appliances.

Gas has been through a technological revolution all its own, in about a dozen years changing over from manufactured fuel to natural gas, through pipelines, with underground storage, adding millions of new customers, performing prodigies of engineering and finance.

As it stands today, gas ought to be the last word in technology.

There is no last word in technology.

Even before pipelines, scientists were researching ultra cold, for defense purposes. A Chicago company got interested in the new knowledge being obtained, and used it to develop the freezing of gas in Texas, and bringing it to Chicago for steam raising.

British gas authorities saw other possibilities in the method, collaborated in the conversion of an experimental tanker to frozen gas, and the other day London cooked its fish-and-chips with natural gas from Texas. Gas from the world's surplus fields, now being flared, will be available to any country in the world. Japan will cook its rice with frozen gas from the Canadian Northwest; frozen gas will cost about half what housewives in other lands are now paying for manufactured gas, consumption will rise . . .

AT 258 below zero, frozen gas is reduced to one six-hundredth the volume, facilitating rail transportation and compact storage. So, there appears to be still more change ahead for our domestic gas utilities. What effect will frozen gas have on pipelines—especially on costs of fuel, already a looming problem? And on storage for winter peaks?

Several years ago Washington had to turn to manufactured gas when a pipeline broke. It was an expensive expedient, and made possible only because the manufacturing equipment had been kept standing by. With frozen gas an emergency supply could be kept without underground reservoirs, or be brought in almost on an hourly basis.

Everybody these days is talking about security. There might be a symbol for it —the word SECURITY and beneath it the running Irishman.

Yardsticks on Security Plans

EVERYBODY these days is talking about security, and a great deal is being done about it. There are many plans, and a good deal of confusion, with bargaining, and pressures, and suspicion about the way funds are controlled, and investigations—a controversial subject, from which most of the argument can be eliminated by putting a couple of yardsticks on any plan.

These yardsticks show that utility company security plans stand high in general industry, and are something to talk about to employees and the public.

The first yardstick is to ask what kind of business a company is in, its profit margin, its competition, its future.

From time to time, in the news, there are announcements of most generous security provisions for employees, safeguarding them against accident, sickness, and providing liberal pensions, often with minor contributions by employees themselves. Those are concerns with wide profit margins, sometimes family businesses, with a few hundred employees, usually technicians.

A specific case is the security plan arranged with an insurance company by a company making a well-advertised line of bathroom cabinet remedies. Even its competition is beneficial, as education for the wider use of such products.

"They can afford it," commented the insurance man who handled the policy arrangements, "but we do not find many concerns with such profit margins or stability."

FROM this high level, the ability of business to finance security plans ranges down to the industries composed of many small companies as well as large ones, employing only dozens of people, widely scattered in their jobs. Examples: trucking and coal mining. Their security arrangements are made by labor unions, and at present are in a state of evolution.

Still other lines of business are subject to fluctuations with changes in popular demand, and fashion, and competitive products and services.

Some businesses are even threatened with bankruptcy, and extinction. Example: railroad passenger traffic, particularly commuter service.

Utilities Provide Stable Employment

THE utilities, with the single exception of mass transportation in cities, are in lines as stable as food, housing, and clothing, though of course as minor items in family budgets. They are indispensable to society, and not greatly affected by change in basic demand, or even by depressions. Not to the same extent as other business. When times slacken, people can eliminate many manufactured products, make their cars do for several years, retrench in ways that seriously affect many industries. But in the utilities there has seldom been any real unemployment—mostly, the new hirings are decreased for the time being.

Utility profit margins are not so much profit as bank interest on investment in plant. They are narrow compared with many other industries. There are no million-dollar hits, as in motion pictures. Nor are there any multimillion-dollar flops. They do not rise or fall with fluctuations in general business.

So, while inflexible under regulation, compared with manufacturing and trade, they are stable for security purposes, and utility companies have been leaders in providing protection against old age, and against the hazards of employees' working life.

The Worry of the New Broom

"WHAT kind of management does my company have?" is a good question for employees appraising security in their own jobs, thinking about protection against emergencies, and an income after retirement. It is another basic yardstick for measuring security plans, and useful to management in discussing such plans with employees.

Utility companies show up in a very favorable light.

This is an age of new brooms in management. The postwar years have brought

radical changes. Many staid old concerns, in industry, trade, and service, often family-controlled, with elderly management, governed by seniority, and built up from the inside, thought to be solidly entrenched in their fields, have been upset by young competitors and new techniques. War bred many hustling young juveniles. They have ousted the seniors by mergers, proxy battles, purchases for consolidation. They have been brought into old concerns from the outside, to make more broadly balanced organizations, suited to these times.

From the employee standpoint, new brooms have been a worry. People in jobs have been swept aside. There are many tragedies behind the news of mergers, both at the wage-earner levels, and among displaced executives. Change is inevitable, but it is hard, nevertheless.

There is a story about a new broom boss of a transit company that had been showing its years. He was brought in from the outside, young, aggressive, getting the company back into the black. One employee still on the payroll told another about a dream he had had. The new boss was dead. He was being carried to his grave by eight pallbearers. Suddenly the coffin lid burst open, and he sat up.

"Here! Four of you are enough for this job," he ordered. "The rest of you are fired."

ONE nice thing that can be said for utility management, there are few new brooms. Nothing like the present turmoil in other businesses.

There is a reason in which employees should be interested.

The utilities went through their merger days long ago. Power companies, for example, generally started as local enterprises, organized by home-town people, who pioneered the service. They were not well-equipped, financed, or operated, were not always able to grow with their communities. One of the strong arguments for public ownership in those days was that the privately owned power company would not extend its lines into outlying territory, so the community had to take over.

AT this stage, promoters came shopping for local power companies, bought them up, strengthened them in equipment, engineering, operation, and finance, and laid the foundations for the corporations of today. The promoters sold out and departed, and it was a lucrative business while it lasted.

Gas companies were in an older business, and did not offer so many opportunities for consolidations.

Telephone mergers were made chiefly among the independent companies, in smaller communities, because the Bell system was growing from within, in the cities. After a period of merger competition between the two systems, when the monopolistic character of the business was better understood, and regulation developed, the industry worked out a "Hands off!" policy on mergers.

It has been said that nobody ever made a million dollars in the telephone business, except perhaps Bell. It has never been a business of management ownership and opportunity, like manufacturing and trade.

So, people in telephone jobs have few new broom worries. Where in other industries the new boss may be an outsider, in telephony he is almost always a telephone man—maybe the jobholder who, in

another business, would lie awake nights, worrying. This is true in other utilities.

Give All Credit to the Team

UTILITY companies have done an outstanding job of "make do" in adjusting to postwar conditions. Whenever management feels disposed to talk about security to employees, or the public, it can point with pride.

Other business has had some leeway in raising prices to meet rising costs, but the utilities have been hampered by inflexibility in the regulatory machinery.

This is a subject rife with controversy, not to say emotion. Regulators and utility brass say things about each other in public, and other things in private, but boiled down to fundamentals it might be put this way:

The regulatory commissions had never faced such a situation. Inflation brought new problems of plant valuation, depreciation, operating expenses, protection of the public interest.

Utility management has not been able to get the revenue needed, by its own estimates, to offset rising costs and provide new plant for headlong growth.

It is likely that postwar experience will bring about greater flexibility in regulation, to meet such new situations.

Meanwhile, the utilities have turned to research to develop improved equipment, to offset rising costs, and to salesmanship to sell more service, increasing revenues. Illustration: New appliances in power and gas, and direct dialing of long-distance calls to get more traffic out of expensive toll circuits.

For all this, the utilities have had to build a team, training and promoting employees, recruiting engineers and technicians. The whole achievement is one to be treated as teamwork, with credit all around. Really, an attractive standpoint.

IT might be interesting to employees to hear how utility security funds have been maintained on postwar revenue, while utility companies are being put through the financial wringer, and to compare their own protection with that of people in other industries.

There is a general feeling among people on payrolls that the Boss provides for retirement, out of a bottomless Mother Hubbard's cupboard that can always produce fringe benefits, more vacation with pay—under pressure.

The cold truth is that management chiefly provides compulsory savings plans by which even the thriftless regularly set aside something for emergencies and old age. Even Social Security, as it hands out a number, takes its first cut.

Recently the Bell system put into effect a life insurance plan that stimulates this compulsory saving principle.

The Bell Life Insurance Plan

MOTHER BELL has long had a retirement plan based on salaries and wages, to which employees are asked to contribute nothing. The new insurance plan supplements this by group life insurance, optional with each employee, to which the company contributes part of the premium. The company also does all the paper work, and makes saving automatic. It seems to be easier for most people to save by signing up for something—instalments, deductions for stock purchases. Putting something aside every pay day is a hard wrench. This plan offers the individual employee $1,000 worth of insurance for each $1,000 of pay, rounded out to the highest $1,000. He pays 50 cents a month on the first $2,000, and another four bits on each additional thousand. The company pays the balance.

THIS is term insurance, which buys the utmost protection for dependents for the premium. It has no loan, cash surrender, or paid-up values, but does provide double indemnity for accidental death. The employee himself does not benefit, but protection for his family, during his working career, and on retirement, is generally about doubled.

The insurance can be increased with pay raises. The company takes over the whole premium after retirement, so the employee pays nothing more. While accident features cease then, and the amount of the policy is decreased 10 per cent yearly, the death coverage never goes below $1,500.

This is said to be the second largest group policy written, covering a potential 760,000 Bell employees. There is a larger group policy covering 2 million civil service workers. The Bell policy is underwritten by 11 insurance companies, with reinsurance in 21 others, but the enormous amount of detail work involved is co-ordinated by Metropolitan. Already, more than $20 million has been paid in benefits.

REGULATORY bodies have different viewpoints on such insurance. Are the premiums paid by the company to be rated as operating expense? How about retired employees, who are included in the Bell plan—are premiums paid for them to be rated as operating expense? They are no longer producers. How about life insurance for officers or stockholders?

These angles are being worked out, in different ways, but the general view developing seems to be that utility companies must more and more hire, train, promote, and keep skilled people, to ensure progress with the times. What has always been called a job is today rounding out into a working career, with security provided by management.

Group insurance does not add anything to retirement funds, but does add to the security of families during critical years. Security is generally discussed as something for the individual, but as the town crackpot said, when it was suggested that he had nobody to keep but himself, "Whoever saw anybody that had nobody to keep but themself?"

THE basic Bell security plan, which requires no contributions from employees, is figured on annual salary or wages for the ten best earning years, multiplied by years of service. An employee earning $5,000 a year during the ten years of highest salary, retiring after thirty

years' service, receives $1,500 yearly, with additions for each year he works thereafter. If he worked ten more years, his pension would be increased to $2,000.

This kind of retirement plan lays a foundation upon which employees can build further security by their savings. And practically every form of thrift, from savings bank deposits to home buying, has shown amazing growth the past ten years.

Everybody is thinking of old age, looking forward to retirement, and this is a remarkable shift in American thinking—how has it come about?

"Silver Threads among the Gold"

THIS October 29th brings an historic anniversary—thirty years since 25 million shirts were lost in Wall Street, not all of them silk. And the date when America began looking for security. Up to that time this had always been regarded as the land of youth and opportunity, the haven for the oppressed of all nations, where they could come and apply their abilities to creating a new way of life, such as had never been known anywhere, in any epoch. But as the depression shut down, young people postponed marriage, the birth rate sagged, and life insurance actuaries went over their tables of expectancy, and warned that we were all getting older. Thanks to science, we were all living longer. There was already a startling population of oldsters, more coming in the years ahead, fewer babies being born, fewer young people to become producers.

In ten years, the results would show up in the schools, in twenty years in the colleges, and soon thereafter in the hiring lines. Our national anthem might well be "Silver Threads among the Gold."

THE actuaries regarded this trend as permanent, and insisted that we had better face up to the statistics, prepare to sit in the symbolic rocking chair. There were then no electronic computors. They did it all the hard way, with adding machines and pencils.

The reaction was typically American—if they were right, then how could some money be made out of it?

Product designers and market surveyors were enchanted. If people kept on living longer, and science gave them still more bonuses of years, and young people were constantly growing into senior citizens, as they should now be called—what a whale of a market! Senior citizens would need nonskid rugs, get-in-and-get-outable bathtubs, houses with no stairs, baby foods for second childhood.

A new specialist put on a white smock and waited in his consulting office—the geriatrician, his province the aches and pains, the care and feeding of senior citizens.

THE economists saw a solution for our plaguing problems of overproduction. "Let the oldsters eat up and wear out the surpluses," they said.

Where would they get the money? Social Security was invented, everybody got a number.

There has never been any traceable effect on the surpluses.

It is always the unexpected that happens.

Maybe there was another war abreed-

ing. But we would not be dragged into it. We had learned our lesson. Nobody foresaw a war all our own, with its tremendous burst of energy and inventiveness. Again, boy met girl, babies were born, the population was thoroughly stirred up, shifted around, infected with new ideas and wants.

America was itself again, the country of youth, opportunity, never to grow old.

Oldsters of A.D. 2000, Arise!

TODAY, more thought is being given to old age than ever during the deepest depression years. It is the youngsters who are thinking, trying to imagine their retirement, forty years hence, and take steps.

Quiz them in school. What do they want out of life? Yesterday these kids wanted to be cowboys. Now they say, "Security—a job that will stand up against automation, an old age in Florida or California."

They are scolded as cowards, afraid to face life as an adventure, ordered to get in there and slug it out—do they expect the government to take care of them from the cradle to the grave?

From this text many a ringing editorial is written—offering no solutions for the kids' problems, paying little attention to the facts.

The facts are: inflation, a political football.

Tax collectors eying every dollar, before it is earned, from the Treasury down to the local dog catcher.

The educational requirements for a job becoming greater, and education itself more expensive.

Education and experience canceled out by mergers, whims of consumer demand, technology.

Difficulty in getting a job after forty; more and more money and apparatus needed for living, raising a family.

The kids are scared!

MANAGEMENT itself has reason to be uneasy, to seek security for the business, to provide for its own old age, or maybe next year, as the economy strides ahead—spirally.

The search for security is a job of teamwork between management and employees.

It is a subject worth discussing between them.

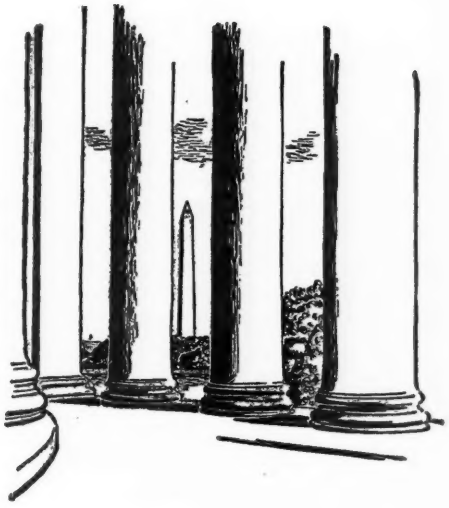
Particularly for utility management.

"... the Forand Bill, which would provide medical care to the aged through Social Security ... portends: Beginning of a major political effort to capture the votes of those of us who are or soon will be 'senior citizens,' that creepy euphemism employed by the politicians. Make no mistake about it, there are men in Congress who are convinced that this is the big new area for vote-getting political largess in the future—to make the aged a class apart on which subsidies can be showered.

"And this cynical notion of creating a new caste of wards of government is an insult both to today's old people and to those now trying to provide for a dignified old age."

—EDITORIAL STATEMENT,
The Wall Street Journal.

Washington and the Utilities



Co-ops Hedge on AEC Bids

REA co-operatives and government-owned power systems have shown little enthusiasm for a recent invitation by the Atomic Energy Commission to help build a "pressurized water" reactor. The consensus among the dozen or more co-operatives, which are keenly interested in atomic power, was that this type of reactor was not very promising compared with other types. It was felt that it would not generate power at costs approaching conventional fuels and that it would prove to be only half so efficient as a "boiling water" reactor.

The price a co-op would have to pay to get such a plant would be high. The co-op would have to furnish the generating plant, provide the site for the reactor, train operating personnel, and buy steam from the reactor at AEC's price. In addition, the co-op would be expected to help pay for the reactor. But the co-ops are not believed very likely to accept the AEC invitation, in view of the fact that the commission indicated it may in the near future give co-ops and publicly owned utilities a chance to help build the more promising "boiling water" type of reactor.

The AEC has announced an extended project designed to extract nuclear power from thorium—a much more plentiful material than uranium. At the present time uranium is the only existing source of fissionable material for atomic fuels. Thorium will be treated in an uranium reactor and it is believed that it can be transmuted into uranium. This new project would undergo fission with the customary high release of energy. The AEC has called a halt to attempts to develop fluid-fueled nuclear power reactors. Effort is now to be expended on "thermal breeder reactors" using thorium. Thorium deposits exist in India, Brazil, and the U. S. and the development of this fuel source could add greatly to the world's reserves of fissionable material for atomic weapons and reactors.

REA Revolving Fund

A PROPOSED bill to create a revolving fund for the Rural Electrification Administration has been sent to Congress

by Acting Secretary of Agriculture E. L. Peterson. The bill is similar to previous proposals by the Acting Secretary of Interior to create revolving funds for the Bonneville Power Administration, Southeastern Power Administration, and Southwestern Power Administration. The purpose of the revolving fund would be to assist the annual budget estimates of REA on a net expenditure basis. The fund would receive all assets, liabilities, and net investments of the REA. The notes outstanding to the Secretary of the Treasury would become liabilities of the fund.

Balances in the fund would be available for loans, for administrative expenses, and for repayments on notes to the Treasury. Obligations could only be incurred within the limits of annual appropriations acts of Congress. Principal and interest payments on loans would not go directly to the Treasury but would remain in the fund and be available for future loans. Net appropriations in any year to sustain a given loan program could be smaller than at present because Congress would have to appropriate only the difference between the loans made and the collections expected.

Bills in Congress

THE President reluctantly vetoed the so-called compromise Public Works Bill. He had previously warned congressional leaders that he does not want to obligate the government to additional reclamation construction because of the long-range budget burden such action would involve. The Senate-House conferees eliminated several projects from the bill. Left out was $1 million for the Curecanti project in Colorado and $3 million for Yellowtail dam in Montana.

A major addition to the Public Works Bill was approval of $2,415,000 to start federal construction of power plants at the Trinity river reclamation project in California. This amendment was added shortly after the House Reclamation Subcommittee killed a bill calling for "partnership" development of Trinity power in co-operation with Pacific Gas and Electric Company. Senator Kuchel (Republican, California) said that this action "virtually assures" that the Trinity power plants will be built by the federal government.

But, in view of the veto, the status of Trinity power is still uncertain.

President Eisenhower strongly condemned both the House and Senate versions of this legislation last July and hinted he might veto the measure if the "new starts" were not eliminated. In almost seven years in office, the President has vetoed only one other money measure. The President is on record as saying that he considered the measure inflationary and detrimental to the financial health of the nation. This implied executive disapproval, to be consistent with his announced policy of curbing spending.

SENATOR O'Mahoney's bill to protect oil and gas interests from government cancellation of lease purchases in good faith but later found to be tainted by irregularities on the part of earlier holders, seems to be all but dead. The Senate Public Lands Subcommittee took up the "innocent purchaser" provision of the O'Mahoney measure. But time was running out for probable action even on this limited phase of the bill as the session neared its close. Other and more controversial phases of the bill involve increases in annual lease rentals and limitations on the amount of federal lands which may be leased to a single operator

in a single state. The leasing limitation and the increased rental questions will probably be the subject of recess hearings this fall.

The Senate Agriculture Committee has approved a resolution (S Res 21) which would put Congress on record as rejecting Comptroller General opinions which would limit issuance of rural electrification loans into new areas. The purpose would be to avoid recurrence of Comptroller rulings such as that one last year which held unlawful REA financing of a co-op extension of service to an industrial plant which already had service available from an electric utility company. The National Rural Electric Co-operative Association is backing the proposal. Approval in the House was expected before the end of the session.

The Senate was expected to approve House-passed bills to prohibit abandonment of natural gas facilities and power projects without the consent of the Federal Power Commission.

The Senate was likewise expected to approve a House-passed bill (HR 2263) which would exempt small hydroelectric projects from certain federal licensing requirements.

Varied Views on Water Law Needs

A DIFFERENCE of viewpoints of two federal officials was disclosed in recent congressional committee testimony on the need for a law to protect state and local water rights from invasion by the national government. Under Secretary of the Interior Elmer F. Bennett said a law is needed to lift a potential dead hand from water resource development in the West. The Federal Power Commission's counsel, Willard W. Gatchell, said there is no need for such legislation.

Bennett and Gatchell testified at a House Interior subcommittee hearing on bills which sponsors say are needed to protect state and individual water rights, particularly in areas taken over by the federal government. Bennett said the Justice Department has developed a doctrine asserting that the federal government has dominant rights to waters in and near areas withdrawn from public use. He said the doctrine is based on the U. S. Supreme Court's recent decision in the Oregon Pelton dam case.

About 225 million acres have been withdrawn and millions of dollars have been spent on water projects, Bennett said. If the Justice Department's theory is not changed by law, he added, a dead hand will be placed on projects "which are the basis for economic development and growth" in the West. Gatchell said he disagreed, although Bennett's two-hour presentation was "excellent, scholarly, and skilled." Gatchell testified there is no need for the proposed legislation since vested rights are protected by the Constitution and by the federal power law under which the commission operates.

FPC Rule to Cover Gas Supply Requests

THE Federal Power Commission recently announced that it was considering a new rule to prescribe regulations to be followed in submitting applications for orders under § 7(a) of the Natural Gas Act, which authorizes the FPC to direct a natural gas company to supply a local distributor with natural gas. The commission said it had not previously found this necessary. But in view of the increasing number of requests for action under this section of the act, it said that it "is now of the opinion that such regulations would benefit not only the

staff of the commission in its processing of such applications but also the persons or municipalities who apply."

The proposed regulations are similar in content to the existing regulations relating to applications for certificates of public convenience and necessity under § 7(c) of the Natural Gas Act, which are designed to obtain from the applicants all the information necessary for a proper appraisal of the data and other supporting material.

FPC Hearings on West Coast Gas Import Line

THE Federal Power Commission has scheduled a hearing for October 15th in Washington, D. C., on an application by Pacific Gas Transmission Company of San Francisco, California, seeking authority to import up to 456 million cubic feet of natural gas daily from Canada for delivery to its parent company, Pacific Gas and Electric Company of San Francisco. The proceedings will also involve applications by Pacific Northwest Pipeline Corporation, of Salt Lake City, Utah, and the Montana Power Company of Butte, Montana, which also seek FPC authorization for the importation of Canadian natural gas. Pacific Gas Transmission proposes to construct approximately 614 miles of 36-inch transmission pipeline, three main-line compressor stations with a total of 27,500 horsepower, and other appurtenant facilities at a cost of about $129,588,000.

The pipeline will extend from a point on the international boundary near Kingsgate, British Columbia, to the vicinity of Klamath Falls, Oregon, on the Oregon-California boundary.

Pacific Gas Transmission also proposes to transport daily volumes up to 151,731,000 cubic feet of natural gas which Pacific Northwest proposes to purchase from Westcoast Transmission Company.

The gas for PGT's project would be purchases from fields in Alberta by Alberta & Southern Gas Company, Ltd., and would be transported by the Alberta Gas Trunk Line Company, Ltd., which would deliver the gas at a point near the Alberta-British Columbia boundary to Alberta Natural Gas Company. Alberta Natural would transport the gas to the international boundary where PGT would purchase it from Alberta & Southern and transport it through Idaho, Washington, and Oregon. The gas would be distributed through PG&E's system.

Vanishing Passenger Trains

THE railroads are dropping unprofitable trains as fast as they can, an Interstate Commerce Commission survey showed recently. They have discontinued 41 since an administrative short cut was approved by Congress last year. They also have started proceedings to eliminate 60 more interstate passenger runs and 40 intrastate trains.

The ICC also gave railroads permission to abandon 4,664 miles of track from 1954 to the start of this year. The survey appeared to bear out a recent warning by ICC Examiner Howard Hosmer that intercity passenger train service would be dead by 1970 if railroads continued their current practices.

The flood of discontinued trains followed approval of the 1958 Transportation Act which eliminated previous red tape surrounding route abandonments. Under the act, a railroad gives thirty days' notice of plans to abandon passenger trains. (See also page 436.)

Telephone and Telegraph

Battle of the Megacycles

THE Federal Communications Commission, in a 6-to-0 action, has released a good deal of the nongovernment radio frequencies above 890 megacycles in deciding the controversial and long-drawn-out "Docket No. 11866" proceedings.

As a result, so-called "safety-special licensees" will be permitted to apply for widespread establishment of private point-to-point radio communications systems. This also includes business and private citizen radio services, to the extent that almost anyone would be permitted to establish such services if otherwise qualified —notwithstanding the alternative availability of common carrier (telephone-telegraph) facilities.

The commission adopted two broad policies, first, regarding the adequacy of the supply of microwave frequencies and the terms and extent to which radio station authorizations may be made to private users, and, secondly, regarding the responsibility and obligation of the commission to consider the economic effects the licensing of private point-to-point communications systems would have on the common carriers, the users of common carrier service, and the general public. The following conclusions summarize the FCC opinion on these two points, respectively:

There are now available adequate frequencies above 890 Mc to take care of present and reasonably foreseeable future needs of both the common carriers and private users for point-to-point communications systems, provided that orderly and systematic procedures and proper technical criteria are applied in the issuance of authorizations, and that implementation is consistently achieved with respect to all available and future improvements in the art. There is a demonstrated need for private point-to-point communications systems. Accordingly, the decision looks toward liberalization of the basis for issuance of such authorizations. Availability of common carrier facilities will not be considered as a condition of eligibility for such private users.

There is no basis for generally concluding that the licensing of private communications systems would adversely affect, to any substantial degree, the ability of common carriers to provide service to the general public or adversely affect the users of such common carrier service. Therefore, it is unnecessary to consider whether such licensing is contrary to the public interest.

The FCC has not determined that there are unlimited frequencies available or that

future conditions may not require that limitations and restrictions be placed upon such authorizations and operations. The commission is going to follow this very carefully in the future.

OTHER determinations made in the FCC's report and order are: Since frequencies above 10,000 megacycles are suitable for intracity or local area operations, as a general principle, it will be expected that all such operations will be conducted on these frequencies. As for private services (excluding broadcasters and public safety organizations), future authorizations for private intracity or local area point-to-point operations will be granted only on frequencies above 10,000 megacycles, including point-to-point operations in the business radio service. Similar authorizations in the "citizens radio service" will be made on frequencies 16,000 megacycles and above. Frequencies above 30,000 megacycles will be used on a developmental basis.

Co-operative use of private microwave systems will not be authorized, except for (1) police, fire, highway maintenance, local government, and forestry conservation radio services; (2) so-called right-of-way companies, such as pipelines and railroads; and (3) other organizations whose rates and charges are regulated by a governmental entity. These exceptions are justified (1) in order to afford the FCC a good basis upon which to make meaningful observations as to the desirability and impact of such arrangements, and (2) because it is evident that any economic benefits flowing out of such arrangements will assuredly flow directly back to the public, either as taxpayers or ratepayers.

So-called "scatter systems" will generally not be authorized between points in the continental limits of the United States, excluding the state of Alaska, since it does not appear that joint occupancy of frequency bands by tropospheric forward scatter systems and conventional line-of-sight systems is generally practicable.

THE band 6,425 to 6,575 megacycles is proposed for allocation (after the International Radio Conference now going on in Geneva, Switzerland) as follows: 6,425-6,525 megacycles to common carriers for mobile operations, such as video pickups for broadcasters, closed loop television, aeronautical or maritime public correspondence, etc., and 6,525-6,575 megacycles to noncommon carrier (excluding broadcasters) mobile operations, such as police video, etc. The band 10,550-10,700 megacycles is proposed for allocation to private users (excluding broadcasters) for mobile operations, and the band 11,700-12,200 megacycles for allocation to common carriers for mobile operations as in the band 6,425-6,525 megacycles.

The commission's order noted that sharing of frequency bands by common carriers and private users, except in very limited circumstances, is neither feasible nor desirable.

Effect on Common Carriers

THE fact that such licensing of private systems above 890 megacycles might have an adverse effect, economically, on telephone companies in the future was considered not to be a valid reason for denying private system establishment. The commission concluded:

> . . . It is abundantly clear that there is no *express* obligation on the part of the commission under the Communications Act of 1934, as amended, to protect the users of common carrier service from any adverse economic effects that the carriers might suffer in that connection.

THE FCC followed a somewhat different policy some years ago when it indicated that the availability of alternative common carrier service should be a factor in determining whether television broadcasters, for example, should be allowed to set up their own radio relay systems. The opinion in Docket No. 11866 concludes on this:

> It may be noted in passing that the commission, in the past, has licensed television broadcasters to operate their own microwave relay facilities for temporary periods until common carrier facilities became available. (See the commission's report in Docket No. 6651, adopted February 20, 1948, Mimeo FCC 48-481.) Such a policy determination that the broadcasters look to common carriers for intercity relay of television programs was predicated upon public interest considerations arising from the commission's belief at that time that there was not sufficient frequency space between 1,000 and 13,000 Mc in the nongovernment fixed and mobile bands to accommodate private relay systems. However, as indicated previously, on the basis of the record herein, we are of the opinion that the public interest would not be served by a policy of restricting or denying the licensing of private point-to-point systems solely because common carrier facilities are available or may become available in the reasonable future. It follows that the commission should not consider the availability of common carrier facilities as a condition of eligibility for private users.

More Telephone Stock Splits

THIS appears to be the year for stock splits in the telephone industry. The precedent-breaking 3-to-1 split of American Telephone and Telegraph Company stock which took place last spring has been followed by announcements that five additional companies will split their stock. Four of these companies are Bell system operating companies. New England Telephone & Telegraph splits 5 for 1; Pacific Telephone and Telegraph, 7 for 1; Indiana Bell, 2½ for 1; and the Chesapeake & Potomac Telephone (of the District of Columbia) has requested permission to split 5 for 1.

The General Telephone & Electronics Corporation has also announced a 3-for-1 split.

Bell system operating company stock is virtually entirely owned by AT&T (with minority exception in the case of Pacific Telephone). Therefore, the usual reason for splitting stock—that is, to broaden the base of share ownership, etc.—does not exist in these cases. The reason given by Chesapeake & Potomac to the District of Columbia commission, however, is an interesting one for all utility enterprise. Chesapeake simply wants to reduce comparison of earnings with dividends on a level which "will be less likely to be misinterpreted."

Under the proposed Chesapeake & Potomac split the company's present $100 par would be reduced to $20 par. Chesapeake noted that other corporations, particularly utilities, have outstanding stock with par values of $25 or less. Chesapeake's net income in 1958 equaled $7.22 a share on the present $100 par stock which could be confused as a percentage of return yield, which is not a fact. After the split, such income would equal about $1.44 per $20 par share.

Push-button Telephone Tested

THE Bell Laboratories has been conducting a test of push-button tele-

phones in Hamden, Connecticut. The push-button system, as previously noted in this column, is designed to replace the conventional rotary dial models now in general use. The new set consists of 10 buttons arranged in three horizontal rows of three buttons each—plus a zero-operator button.

One hundred and fifty new phones were installed in this suburb of New Haven to test various "human factors." One suggestion, which came about through this test, has been the placing of the buttons further apart for greater convenience and accuracy. The push-button phones are designed to give off a musical "blip" and each button has a slightly different pitch. These musical blips replace the "clicks" which result when a conventional rotary dial is used.

Thirty of the new phones were installed in the Plasticrete Corporation for office use and the management expressed disappointment when the test was finished and Bell removed the sets. At the completion of the test run, approximately 90 per cent of the persons who used the new telephones found them to be satisfactory.

Bell Laboratories has been experimenting with the push-button phone for some time and it is expected that before too many years it will begin to replace the present rotary dial system.

Communications Bills

A BILL to exempt news-type programs from the federal requirement that radio and TV stations give equal air time to all political candidates neared final congressional approval. The House passed the measure by voice vote last month. The Senate, which approved the bill earlier, now will consider House amendments.

The bill would exempt from the Federal Communications Act's "equal time" provision all newscasts, news interviews, and on-the-spot coverage of news where political candidates appear.

The House has unanimously voted to raise the limit on the number of free telegrams and long-distance telephone calls allowed each member. It approved the bill without debate and sent it to the Senate. No objection was expected from the Senators, who generally are getting allowances more liberal than those being proposed for House members. Most of the 435 House members had not been using all of their old allowance.

It was liberalized to answer complaints from a minority that they were forced to pay out of their own pockets for some telephone calls or telegrams during the last Congress because they ran over their two-year allowance of 6,000 telephoned minutes and 40,000 telegraphed words.

The new arrangement gives House members a combined two-year allowance of 80,000 units, with one unit per telegraphed word and five units per minute of long-distance telephone calls.

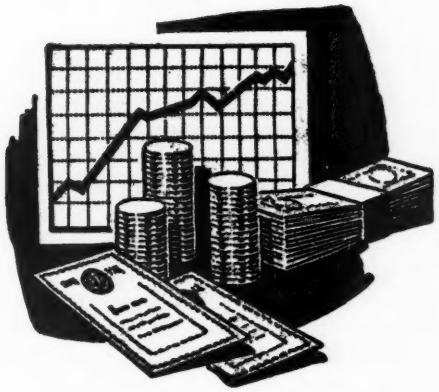
THE Senate recently passed and sent to the House legislation to permit members of the FCC to accept a "reasonable honorarium or compensation" for making speeches or writing articles. The bill, introduced by Chairman Warren G. Magnuson (Democrat, Washington) at the FCC's request, removes from the present law a ban on the commissioners receiving such compensation.

The measure, however, retains a restriction forbidding the commissioners to engage in side businesses or professions.

A measure that would impose $100 fines for improper use of radiotelephones was adopted by the Senate and sent to the House where approval was expected.

Financial News and Comment

By OWEN ELY



FPC Decision in El Paso Gas Case Disappointing

In one of the few policy-making decisions of recent years the Federal Power Commission—Commissioner Connole not participating—on August 10th rendered a decision (Opinion No. 326, Docket No. G-4769) regarding El Paso's application for a rate increase of $18,841,000. The increase had been filed October 19, 1954 (going into effect under bond in April, 1955), and had thus required nearly five years for a decision; the presiding examiner's opinion had been rendered in March, 1958. The commission allowed an increase of about $14.5 million or a reduction of nearly one-quarter in the amount sought. El Paso must now make refunds of the excess amounts collected since April, 1955 (with interest at 6 per cent), or an estimated $15 million to customers in California, Texas, New Mexico, and Arizona. The company has two other increases pending aggregating nearly $42 million which are also being collected under bond.

The principal issue involved in the decision is the character of the rate base. Fair rate of return was assumed to be 6 per cent; however, by segregating part of the rate base, the FPC in effect reduced the rate of return. The commission applied the 6 per cent return only to the properties *beyond* the well mouth, devoted mainly to transmission and distribution. But the well mouth properties (devoted to production), the commission held, "must be treated differently for . . . it is the intention of Congress to give producers of gas the benefits of the special tax incentives relating to intangibles and percentage of income depletion. Such benefits represent contributions by the customers, may be properly considered as return, and therefore should be taken into consideration in determining an allowable return and rate of return."

The commission estimated that these tax "incentives" (mainly 52 per cent of intangible drilling costs) would reflect a "rate of return" of 8.61 per cent when applied to the property investment of $74.4 million at the well mouth. Allowing

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a 6 per cent return on the remainder of the property investment, the commission averaged the two figures and obtained an average of 6.35 per cent on the entire rate base of some $550 million.

Thus, the commission held, El Paso would actually be earning over 6 per cent but the excess over 6 per cent "represents an incentive intended by the law." The commission apparently did not wish to set up a firm precedent, however, for it stated "it may be that in other proceedings, upon a full record dealing with rate of return, we would allow a return on the well mouth properties that would exceed the tax incentives, but there appears no basis to do so here."

If the commission had not considered these tax incentives as furnishing a return on well mouth properties, but had followed normal accounting procedure, and had also allowed the well mouth properties to remain in the rate base, the rate increase granted would have reflected a rate of return of less than 6 per cent. Thus, while ostensibly permitting over 6 per cent, the commission used a novel accounting adjustment to reduce the rate base and in effect the rate of return.

THIS point was brought out in the opinion of Commissioner Hussey, dissenting in part. We quote from his opinion as follows:

> . . . El Paso's incentive for investment of funds in exploration for and development of natural gas reserves is provided principally from its being permitted to charge to expense, for tax purposes, intangible drilling costs incurred in drilling successful wells during the accounting period in which such costs are incurred.
>
> The majority opinion would grant El Paso a return on producing properties measured by, or roughly equivalent to, the tax savings accomplished by expensing intangible well-drilling costs on successful wells during the accounting period in which they are incurred.
>
> No one goes into business merely to accomplish a tax saving. An investor seeks security of his capital and a return on his investment. If the business is inordinately hazardous, the investor would expect additional return to compensate for the risk of losing his capital. The tax incentives designed to compensate for this inordinate risk in the gas-producing business are intended as additional return, and the investor expects to obtain a normal return on his investment in addition to the compensation for the inordinate risk of losing his capital.
>
> Also, the expense incurred in drilling a producing gas well includes the cost of tangible well equipment (such as casing, tubing, etc.), in addition to the intangible well-drilling costs. . . . But El Paso still has an investment in tangible well equipment which should be included in its rate base, and on which El Paso should be entitled to its normal rate of return.

COMMISSIONER Hussey pointed out that the rate of return needed to obtain money for gas transmission facilities is less than the rate needed to secure money for exploration and development of gas-producing properties, because of the relative security of the capital invested. Therefore, a gas transmission company would need less rate of return than an independent producer. An integrated company, owning both transmission and producing properties, would be in between. "El Paso," he said, "should have given us testimony which would have enabled us to determine the proper rate of return needed to attract capital to an integrated gas company such as it operates."

It will be interesting to note the industry reaction to this important decision. Offhand, the decision does not seem favorable for the future development of the natural gas industry and it is to be hoped that the commission will take a fresh look at its findings. If not, an appeal to Congress for a supplemental act, covering the determination of the rate base and avoiding any other issues, might be worth considering even in the "election year" 1960.

THE remarks of Commissioner Connole before the New York Society of Security Analysts, a few days after the El Paso decision, did not seem very encouraging, as he indicated that the rate base method used in the El Paso decision represented a final determination by the FPC and that the same method would be applied in future cases. He did, however, intimate that a rate of return above 6 per cent might be allowed and that some pending case would be used to discuss more thoroughly the problem of current rate of return. Many cases such as the El Paso involved earlier "locked-in" periods of time when money rates were lower and hence the rate of return was less of an issue than at present.

He indicated that the commission is trying to complete a general roundup of certain long-standing litigation by the end of the year. Several important decisions were announced recently and others such as the Phillips and United Fuel Gas cases will probably be decided in the near future. With regard to the Phillips case and others involving independent producers of gas, the decision may not follow the same lines as in the El Paso case, he intimated. Area pricing may be the ultimate guide, especially in certificating—it was used in the recent Transwestern decision.

THE complete text of Commissioner Connole's talk will become available shortly and may further clarify his views. In the question-and-answer period he hinted at a possible "way out" of the regulatory impasse for the pipelines—purchase of actual gas *fields* rather than the gas itself. Texas Eastern has apparently been the first to use this method: In June the FPC authorized the company to buy the leasehold producing interests of Rayne gas field in Acadia parish, Louisiana, containing an estimated one trillion cubic feet of gas for about $134 million. The company is making a down payment of about $12.4 million, with the balance to be paid over a 16-year period. More purchases of this kind seem likely, according to Mr. Connole, since they avoid the problem of certification by the FPC. More distributing companies may also follow Consolidated Edison's move and buy gas in the field, using a pipeline as a carrier.

CURRENT YIELD YARDSTICKS
(Standard & Poor's Indexes)

	Aug. 19, 1959	*1958-59 Range*		*1957 Range*	
		High	*Low*	*High*	*Low*
Utility Bonds—A1+	4.54%	4.59%	—3.58%	4.38%	—3.70%
—A1	4.58	4.64	—3.61	4.41	—3.73
—A	4.74	4.78	—3.85	4.70	—3.96
—B1+	4.93	5.13	—4.20	5.21	—4.21
Preferred Stocks*	4.69	4.81	—4.26	4.86	—4.42
Utility Common Stocks	3.88	4.98	—3.71	5.44	—4.73

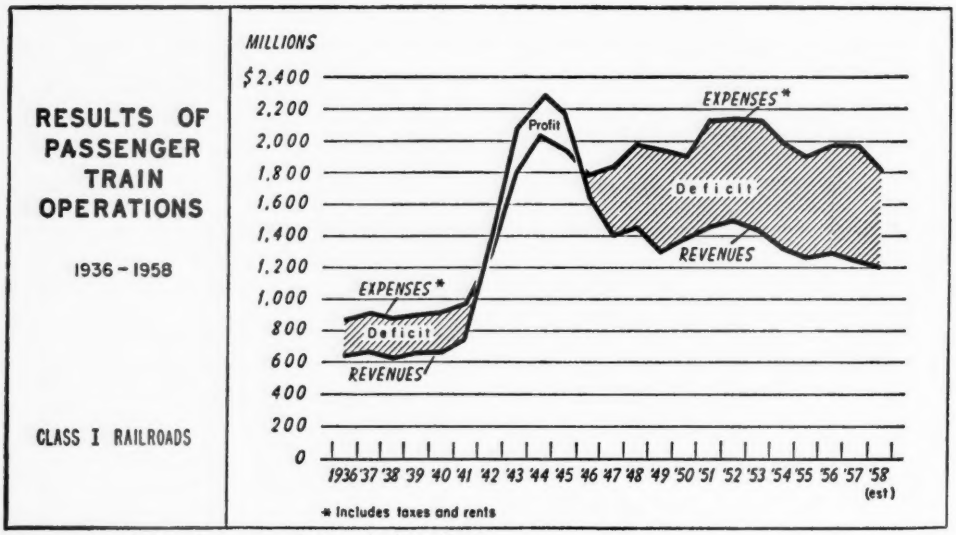
*Twelve industrial and two utility issues (high-grade).

Rail Passenger Losses Finally Get Attention

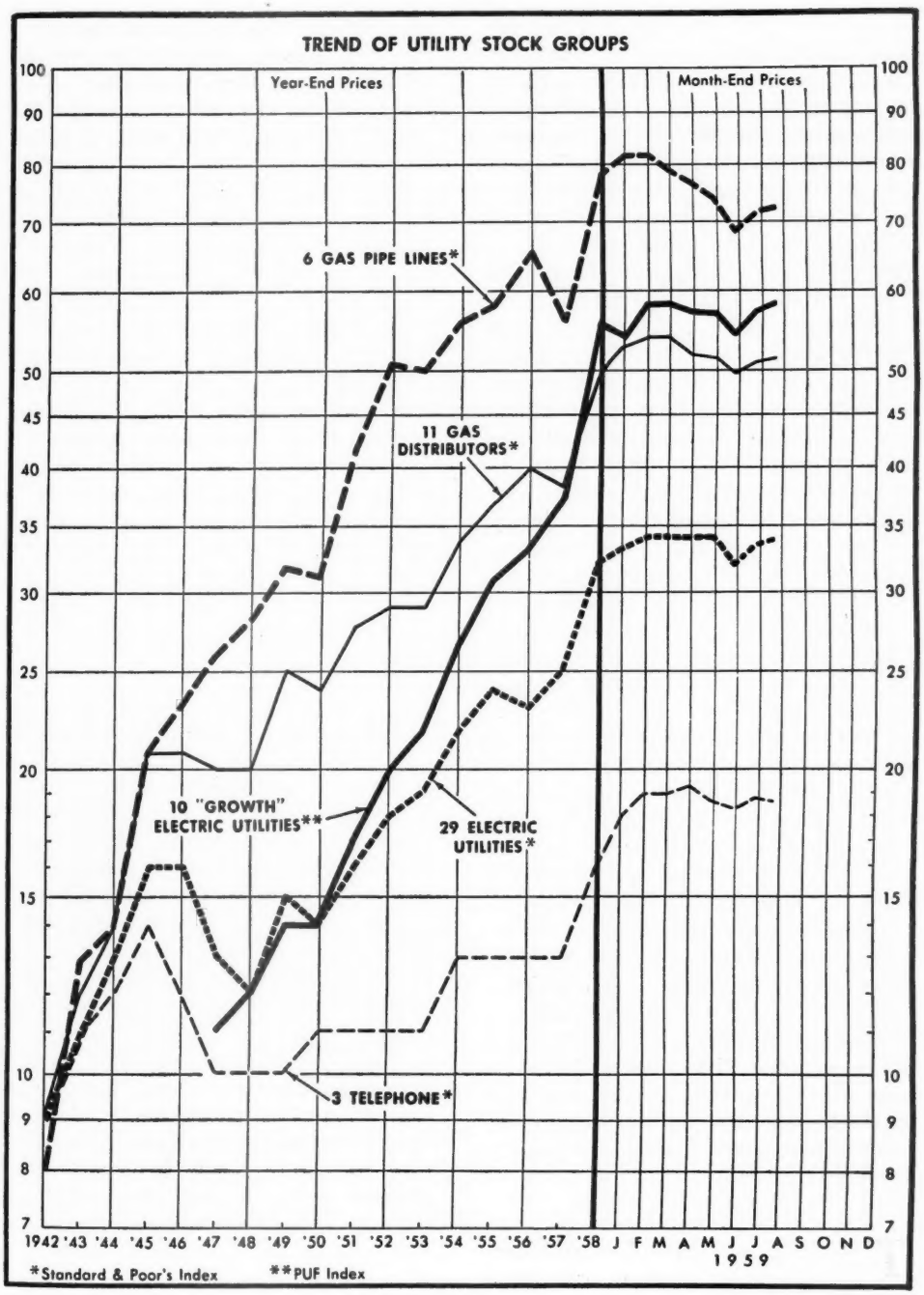
ON several occasions in past years this department has called attention to the plight of the railroads' passenger service and the fact that it is subsidized by the freight service. Small deficits from passenger operations were incurred in the 1930's and early 1940's, followed by moderate profits from heavy wartime passenger loads (when we had to line up for seats in the dining car). But after the war the deficits came back larger than ever. (See the accompanying chart.) The situation became particularly acute for the eastern roads with their heavy commuter and short-haul passenger traffic. Had it not been for the thoroughness with which weak railroads had been reorganized in the 1940's, a new series of receiverships might have been in the making.

Fortunately, however, the problem finally gained the attention it deserved in Washington and in some of the eastern state capitals. Investigations were made and Congress passed the drastic Transportation Act of 1958, effective August 1st last year. This law gave the railroads power to drop passenger train services within thirty days after filing of notice with the Interstate Commerce Commission unless the commission should intervene. Any ICC investigation must be completed within four months and the decision would be valid for only one year; public hearings were not required. The law also increased the jurisdiction of the ICC over both interstate and intrastate services. Some opposition has now developed to this law, and bills have been introduced this year to require public hearings in all abandonment cases, as well as to eliminate time limits. In June this year the ICC asked Congress for more time to investigate rail and ferry abandonment cases and proposed that the burden of proof be placed upon the railroads.

THE law permitted the railroads to make far more rapid progress than in earlier years toward reducing unprofitable passenger services, although much re-



Source, Association of American Railroads, Bulletin 93


TREND OF UTILITY STOCK GROUPS
Year-End Prices
Month-End Prices
6 GAS PIPE LINES*
11 GAS DISTRIBUTORS*
10 "GROWTH" ELECTRIC UTILITIES**
29 ELECTRIC UTILITIES*
3 TELEPHONE*
100
90
80
70
60
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*Standard & Poor's Index
**PUF Index

mains to be done. It is reported that the New Jersey railroads have dropped 766 trains since January 1, 1958. Lehigh Valley is attempting to abandon its entire passenger service but has had to retain some trains until next May. The Erie, with permission of the New Jersey commission, has dropped 89 commuter trains out of 105 requested. Central Railroad of New Jersey has advised the state commission that it faces financial disaster unless it abandons passenger service entirely, or is able to raise commutation fares; it has asked for increases of 40 per cent or more in intrastate fares, and has petitioned the ICC for similar interstate increases. The company has paid no dividends since 1931 and is encountering increased deficits. The Lackawanna has asked the New Jersey commission for permission to discontinue 20 more trains, following permission obtained in April to discontinue some 82.

In New York, the Long Island Railroad has kept its head above water financially with the aid of a special law put through the legislature a few years ago, at Tom Dewey's insistence, which virtually permits the road to raise its own rates. (It has been doing so almost once a year, to offset wage increases.) New York Central, without any such protection, has sought to drop commuting trains, ferry services, and some main-line trains.

In California the Southern Pacific, impatient at the dilatory tactics of the public utilities commission and its criticisms, applied to the ICC. In Massachusetts, where Boston & Maine had a passenger deficit of nearly $10 million in 1958, the state commission authorized a cutback in service to save about $885,000, and other changes were planned to reduce the deficit below $6 million.

THERE has, of course, been considerable opposition to many train abandonments and this has spurred the search for other remedies, most of which involve subsidies in one form or another.

One of the most reasonable subsidies would be to reduce real estate taxes on railroad property. The New York Public Service Commission has recommended a two-year freeze of the railroad property tax base, elimination of some local taxes, and repeal (by Congress) of the 10 per cent excise tax on passenger tickets. Governor Rockefeller's special consultant, Robert W. Purcell, has proposed relieving the railroads of up to $15 million in state and local taxes. He also suggested that the New Haven, Long Island, and New York Central be permitted to buy 400 or more air-conditioned coaches, with the help of a $20 million state loan; actually the Port of New York Authority would buy the coaches and lease them to the railroads, and the authority has indicated its willingness to act in this rôle.

A UNIQUE scheme has been evolved in New Jersey to use the credit of the New Jersey Turnpike Authority to raise money for commuter roads in distress. The bill, approved by the assembly several weeks ago and now reported likely to pass the senate, would call for a public referendum in November. (See page 454.)

The idea of railroad mergers was promoted last year—as it was back in the 1920's—to strengthen the railroads and help eliminate competing passenger services.

While plans for several mergers are definitely under way, the most spectacular one—to combine the Pennsylvania and New York Central railroads—fell through early this year. New York Central, after thirteen months' investigation, called off the deal—"Railroad Romance Ends in a Jilt" was the way *Business Week* characterized it. In rejecting the plan, the Cen-

tral suggested that an effort be made to "bring about in the East three or four systems of nearly balanced economic strength, which would consist of both large and small railroads." However, it was also indicated that some co-ordination of Central and Pennsy facilities should be worked out, and it is understood this will be done.

THE ICC now seems to favor the elimination of duplicate passenger services between identical points. Other recommendations by the commission include lower taxes on rail property; reduction of featherbedding (the railroads recently asked President Eisenhower to appoint a commission to study this subject); repeal of the 10 per cent federal excise tax on passenger fares, and special income tax treatment; and reforms in highway and airport programs that discriminate against railroads.

Of course, the ICC would like to see the railroads experiment with new types of equipment and use greater efforts to increase business by lower fares and better schedules. But the railroads already have been tinkering with their equipment for many years, perhaps in a rather halfhearted way; many innovations have appeared in Pullman cars, for example.

RECENT FINANCIAL DATA ON GAS UTILITY STOCKS

Annual Rev. (Mill.)			8/19/59 Price About	Dividend Rate	Approx. Yield	Recent Share Earnings	% Increase	Aver. Incr. In Sh. Earn. 1953-58	Price-Earns. Ratio	Div. Payout	Approx. Common Stock Equity
		Pipelines and Integrated Systems									
$ 5	O	Ala.-Tenn. Nat. Gas	24	$1.20(k)	5.0%	$1.40Ma	3%	14%	17.2	86%	40%
205	S	American Nat. Gas	63	2.60(L)	4.1	4.22Je	14	8	14.9	62	39
76	A	Arkansas Louis. Gas ...	62	1.20	1.9	2.82Ma	50	85	22.0	43	53
55	O	Colo. Interstate Gas	50	1.25	2.5	2.51Ma	NC	9	19.9	50	24
427	S	Columbia Gas System ..	21	1.00	4.8	1.31Je	D10	26	16.0	76	43
7	O	Commonwealth Gas	8	—	—	.49De	22	—	16.3	—	77
19	O	Commonwealth N. G. ...	22	1.00	4.5	1.57Je	D2	12	14.0	64	47
11	S	Consol. Gas Util.	19	.90	4.7	1.60Ap	3	8	11.9	56	57
304	S	Consol. Nat. Gas	52	2.10	4.0	3.45Ma	D3	11	15.1	61	60
19	O	E. Tenn. Nat. Gas	13	.60	4.6	.86Je	D8	22	15.1	70	25
368	S	El Paso Nat. Gas	33	1.30	3.9	1.61De	D2	—	20.5	81	17
50	S	Equitable Gas	37	1.60	4.3	2.62Je	17	6	14.1	61	44
34	O	Houston N. G.	32	.80	2.5	1.44Ap	D23	11	22.2	56	18
21	O	Kansas Nebr. Nat. Gas .	40	1.80(f)	4.5	2.94De	15	11	13.6	61	36
113	S	Lone Star Gas	41	1.80	4.4	2.31Je	D4	10	17.7	78	43
77	S	Miss. River Fuel	41	1.60	3.9	2.08Ma	NC	5	19.7	77	48
28	S	Montana Dakota Util. ..	32	1.00	3.1	1.77Je	11	15	18.1	56	29
26	O	Mountain Fuel Supply ..	26	1.20	4.6	1.76Je	7	3	14.8	68	51
94	S	Natl. Fuel Gas	24	1.15	4.8	1.91Je	37	7	12.3	60	56
139	S	Northern Nat. Gas	32	1.40	4.4	1.71Je	—	9	18.7	82	35
43	S	Oklahoma Nat. Gas	28	1.24	4.4	1.94Je	19	6	14.4	64	34
121	S	Panhandle East. P. L. ..	49	1.80	3.7	2.74De	—	2	17.9	66	40
15	O	Pennsylvania Gas	25	1.20	4.8	2.13De	D2	30	11.7	56	59
188	S	Peoples G. L. & Coke ...	64	2.30	3.6	3.98Je	33	4	16.1	58	41
26	O	Pioneer Nat. Gas	43	1.60	3.7	2.10De	D1	11	20.5	76	43
104	S	Southern Nat. Gas	40	2.00	5.0	2.00Ma	D4	—	20.0	100	43
41	O	Southern Union Gas	27	1.12	4.1	1.40De	D9	9	19.3	80	27
402	S	Tenn. Gas Trans.	35	1.40	4.0	1.67Je	10	16	20.8	84	21
266	O	Texas East. Trans.	30	1.40	4.7	1.98Je	D25	16	15.2	71	21
104	S	Texas Gas Trans.	33	1.20(b)	3.6	2.14Je	13	3	15.4	56	33
115	O	Transcont. Gas P. L. ...	23	1.00(b)	4.3	1.49Je	2	17	15.4	67	19
318	S	United Gas Corp.	36	1.50	4.2	2.36Je	D6	4	15.3	64	42
		Averages			4.1%		5%	12%	17.3	70%	

Annual Rev. (Mill.)		(Continued)	8/19/59 Price About	Dividend Rate	Approx. Yield	Recent Share Earnings	% Increase	Aver. Incr. In Sh. Earn. 1953-58	Price-Earns. Ratio	Div. Payout	Approx. Common Stock Equity
		Retail Distributors									
32	S	Alabama Gas	31	$1.60	5.2%	$1.99Je	D27%	13%	15.6	80%	36%
53	O	Atlanta Gas Light	39	1.80	4.6	2.47My	D24	11	15.8	74	34
3	O	Berkshire Gas	20	1.00	5.0	1.46My	8	30	13.7	68	39
7	A	Bridgeport Gas	32	1.60	5.0	2.63Je	24	8	12.2	61	46
6	O	Brockton-Taunton Gas	19	1.00	5.3	1.30De	10	28	14.6	77	46
79	S	Brooklyn Union Gas	54	2.20	4.1	3.28Je**	1	10	16.5	67	44
41	O	Central Elec. & Gas	21	1.00	4.8	1.69Ma	3	11	12.4	59	17
13	O	Cent. Indiana Gas	15	.80	5.3	.77Je	D30	17	19.5	104	57
6	O	Chattanooga Gas	5	.35	7.0	.38F	D31	17x	13.2	92	43
15	O	Elizabethtown Cons. Gas.	41	1.60	3.9	2.77Ap	D3	17	14.8	58	78
68	O	Gas Service	33	1.52	4.6	2.48Je	D13	13	13.3	61	36
9	O	Hartford Gas	46	2.00	4.3	2.45Je	16	—	20.0	82	51
3	O	Haverhill Gas	27	1.40	5.2	2.12Je	9	14	12.2	66	53
20	O	Indiana G. & Water	26	1.00(b)	3.8	1.51Je	D2	11	17.2	66	45
52	S	Laclede Gas	20	.90	4.5	1.13Je	D17	5	17.6	80	34
6	O	Mich. Gas Util.	23	1.05	4.6	1.48Ma	8	4	15.5	71	34
44	O	Minneapolis Gas	31	1.50	4.8	2.07Je	12	6	15.0	72	46
17	O	Miss. Valley Gas	26	1.20	4.6	2.23Ma	1	8	11.6	54	34
6	O	Mobile Gas Service	26	1.10	4.2	1.23Je	D35	7	21.1	90	37
8	O	New Haven Gas	40	1.90	4.8	3.07De	30	13	13.0	62	67
15	O	New Jersey Nat. Gas	50	1.80	3.6	2.81Ma	4	—	17.8	64	34
91	O	No. Illinois Gas	32	1.00	3.1	1.75Je	27	—	18.3	57	54
10	O	North Penn Gas	12	.60	5.0	.81De	4	12	14.8	74	60
18	O	Northwest Nat. Gas	18	.72	4.0	*1.24Je**	32	—	*14.5	58	36
285	S	Pacific Lighting	49	2.40	4.9	2.80Ma	5	10	17.5	86	42
10	O	Piedmont Nat. Gas	38	1.00	2.6	1.59Ma	D23	21	23.9	62	24
2	O	Portland Gas Lt.	17	.75	4.4	2.31De	128	31	7.4	32	27
10	A	Providence Gas	10	.56	5.6	.60De	20	5	16.7	93	50
4	A	Rio Grande Valley Gas	4½	.16	3.6	.38Je	20	11	11.8	42	55
6	O	So. Atlantic Gas	15	.80	5.3	1.22Se	27	6	12.3	66	32
14	S	So. Jersey Gas	27	.90	3.3	1.26Je	9	18	21.4	71	50
34	S	United Gas Impr.	58	2.40	4.1	3.41Je	16	5	17.0	70	54
60	S	Wash. Gas Light	49	2.24	4.6	3.69Je	7	12	13.3	61	37
14	O	Wash. Nat. Gas	20	9(g)	—	1.03Ma	91	5	19.4	—	40
10	O	Western Ky. Gas	18	.60(i)	3.3	1.36Je	D10	3	13.2	44	41
		Averages			4.5%		8%	11%	16.0	70%	

RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER STOCKS

Annual Rev. (Mill.)			8/19/59 Price About	Dividend Rate	Approx. Yield	Recent Share Earnings	% Increase	Aver. Incr. In Sh. Earn. 1953-58	Price-Earns. Ratio	Div. Payout	Approx. Common Stock Equity
		Communications									
		Bell System									
$6,771	S	Amer. T. & T. (Cons.)	80	$3.30	4.1%	*$4.94My	12%	4%	*16.2	67%	64%
329	A	Bell Tel. of Canada	43	2.00	4.7	2.14De	7	—	20.0	93	64
47	O	Cin. & Sub. Bell Tel.	91	4.50	4.9	5.15De	5	—	17.7	88	76
255	A	Mountain Sts. T. & T.	176	6.60	3.8	9.55My	7	4	18.2	69	76
354	A	New Eng. T. & T.	194	8.00	4.1	10.84Je	21	7	17.9	74	62
937	S	Pacific T. & T.	183	7.00	3.8	9.06My	20	1	20.2	77	61
119	O	So. New Eng. Tel.	45	2.20	4.9	2.75Je	13	8	16.4	80	61
		Averages			4.3%		12%	3%	18.1	78%	
		Independents									
6	O	Anglo-Canadian Tel.	37	$1.20	3.2%	$3.15Je	D1%	32%	11.7	38%	52%
45	O	British Col. Tel.	46	2.00	4.3	2.11Je	1	—	21.8	95	28
4	O	Calif. Inter. Tel.	15	.70	4.7	.98Je	12	NC	15.3	71	24

Annual Rev. (Mill.)		(Continued)	8/19/59 Price About	Dividend Rate	Approx. Yield	Recent Share Earnings	% Increase	Aver. Incr. In Sh. Earn. 1953-58	Price-Earns. Ratio	Div. Payout	Approx. Common Stock Equity
22	O	Calif. Water & Tel.	26	1.20	4.6	1.79De	36	2	14.5	67	37
20	O	Central Tel.	25	1.00(b)	4.0	1.88Ma	—	5	13.3	53	33
5	O	Commonwealth Tel.	19	.90	4.7	1.35Je	NA	20	14.1	67	35
5	O	Florida Tel.	30	1.00	3.3	1.21My	21	—	24.8	83	42
552	S	General Tel. & Elec.	73	2.20	3.0	3.11Je	7	NC	23.5	71	34
20	O	Hawaiian Telephone	23	1.00	4.3	1.27Jy**	10	4	18.3	79	44
8	O	Inter-Mountain Tel.	16	.80	5.0	.91De	D3	—	17.6	88	54
23	S	Rochester Tel.	29	1.00	3.4	1.59Je	16	4	18.2	63	33
11	O	Southwestern St. Tel. ..	24	1.20	5.0	1.36Je	D14	—	17.6	88	37
38	O	United Utilities	34	1.25	3.7	1.64De	6	3	20.7	76	36
16	O	West Coast Tel.	26	1.20	4.6	1.56Je	21	—	16.7	77	32
255	S	Western Union Tel.	38	1.20	3.2	1.89De	D7	—	20.1	63	85
		Averages			4.1%		7%	6%	17.9	71%	
		Transit Companies									
20	O	Baltimore Transit	9	—	—	$ .58De	D43%	—	15.5	—	48%
12	O	Cincinnati Transit	6	$ .30	5.0%	.31De	D40	—	19.4	97%	54
65	S	Fifth Ave. Coach	15	—	—	.02De	D99	—	—	—	75
305	S	Greyhound Corp.	21	1.00(o)	4.8	1.23De	1	—	17.1	81	50
25	S	Nat. City Lines	29	2.00	6.9	1.69De	D38	—	17.2	118	94
13	O	Niagara Frontier Trans. .	10	.60	6.0	.10De	D87	—	—	—	67
17	A	Pittsburgh Rys.	12½	.25	2.0	.32Je	NC	—	—	78	90
6	O	Rochester Transit	6	.40	6.7	.86De	34	11%	7.0	47	100
21	O	St. Louis P. S.	11	1.00	9.1	.68De	4	—	16.2	147	97
14	S	Twin City R. T.	10	—	—	.24De	D70	—	—	—	65
19	O	United Transit	7	.60	8.6	.75De	D4	—	9.3	80	55
		Averages			6.1%		(D) 34%	—	14.5	93%	
		Water Companies									
		Holding Companies									
43	S	American Water Works .	15	$ .60	4.0%	$1.18Je	22%	—	12.7	51%	19%
		Operating Companies									
5	O	Bridgeport Hydraulic ...	34	$1.70(f)	5.0%	$1.75De	D15%	2%	19.4	97%	53%
16	O	Calif. Water Service ...	26	1.20(j)	4.6	1.70Je	5	1	15.3	70	36
4	O	Elizabethtown Water ...	52	2.00	3.8	3.78De	D3	14	13.8	53	59
11	S	Hackensack Water	46	2.00	4.3	3.29De	D5	—	14.0	61	35
9	O	Indianapolis Water	24	1.00	4.2	1.22De	D4	6	19.7	82	36
6	O	Jamaica Water	43	2.20	5.1	3.24Je	D2	1	13.3	68	27
5	O	New Haven Water	67	3.40	5.1	3.32De	9	6	20.2	102	61
2	O	Ohio Water Service . ..	28	1.50(b)	5.4	1.77Je	D14	—	15.8	85	31
9	O	Phila. & Sub. Water ...	53	1.60(b)	3.0	2.52Ap	D16	—	21.0	63	27
2	O	Plainfield Un. Water ...	61	3.00	4.9	4.31Ma	D3	3	14.2	70	64
5	O	San Jose Water	33	1.30(f)	3.9	2.27Je	34	15	14.5	57	41
11	O	Scranton-Springbrook ..	23	1.00	4.3	1.68Ma	—	4	13.7	59	25
5	O	South. Calif. Water	19	.80	4.2	1.20Je	6	7	15.0	67	33
4	O	W. Va. Water Service ..	21	.68(d)	3.2	1.47Je	D10	—	14.3	46	18
		Averages			4.4%		D1%	5%	16.1	70%	

A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. Ja—January; F—February; Ma—March; Ap—April; My—May; Je—June; Jy—July; Au—August; Se—September; Oc—October; N—November; De—December. NC—Not comparable. NA—Not available. D—Decrease. *On average shares. **Includes tax savings from accelerated depreciation. (a) Adjusted to eliminate 13 cents per share of nonrecurring tax savings. (b) Also stock dividend in 1958. (d) Also one per cent stock dividend quarterly. (e) Also 10 per cent stock dividend May 19, 1958. (f) Includes extras. (g) Five per cent stock dividend April 10, 1959. (i) Also 5 per cent stock dividend December 29, 1958. (j) Also 5 per cent stock dividend March 19, 1959. (k) Also 20 per cent stock dividend March 9, 1959. (L) Also 10 per cent stock dividend June 10, 1959. (n) Excludes profit realized on sale of Los Angeles Transit $3.81 per share. (o) Also 5 per cent stock dvidend June 30, 1959. x—1952-57.

What Others Think

More about That "Labyrinth of Rates"

IN response to the article "The Labyrinth of Rates" in the July 30th issue of PUBLIC UTILITIES FORTNIGHTLY, page 230, this writer would like to add a few additional facts.

Electric power may be homogeneous. That may be a fair description of it for those who do not have to handle it; and, no doubt, electric rates are very heterogeneous to those who are less familiar with electric rate structures. But what is the rest of the story?

The writer has made several suggestions:

1. That the electric rates be simplified.
2. That all rates should be made promotional.
3. That they should be placed on a "willingness to pay" basis.
4. That all penalty clauses should be removed from electric rate structures.

The above suggestions are all very good, and might well be called the rate engineer's objectives. Based on a considerable amount of experience and effort, it is evident that those suggestions are easier said than done.

REFERRING to electric power as being homogeneous might be compared with saying that a youngster is homogeneous, but you still have a very difficult time trying to figure out what he is going to do next. We do know that there are two kinds of electric power, active and reactive. We also know that both kinds are essential in the conduct of the electric business, and both are costly to produce. We also know that you cannot sell active power, the kind the customer uses, unless you provide reactive power with which to deliver it and supplement the customer's reactive power needs. Electric power is not of any value to the consumer unless it can be delivered at the desired voltage, and the desired voltage cannot be maintained unless there is sufficient reactive power in the supply to maintain the voltage level. Unfortunately, if the voltage level is not maintained, in all probability some part of the company's or customer's equipment will be destroyed. We also know that the reactive, as well as active, power requirements of different types of customers vary widely. Now let us look at the proposals:

1. ALTHOUGH simplification in the rate structure is desirable, the difficulties in oversimplification can be seen in the following example:

Why is it that car rental services have two charges, one a flat rate per hour or per day, and another based on the miles the car is driven? Why not just one rate on a mileage basis? The answer is obvious; the one-part rate simply would not work. It

would be very easy for a person to obtain a car, keep it at home throughout the year, and use it a few hundred miles during the period. For the same reason, the sale of electricity must be on a two-part basis. Demand and kilowatt-hours are comparable to the car rental charge per day and the mileage charge per mile driven by the customer.

2. Nearly all electric rates at the present time are promotional. The more energy the consumer uses, the lower the cost per unit of service. That is why rates for large users contain demand steps, energy steps, hours' use provisions, and similar features. They are incorporated in the rate structure for the purpose of promoting use of the services and to award lower cost for increased hours' (like miles in the car rental service) use of the electric service.

3. Willingness to pay might be a fairly good basis for predicating rates, but it is obviously not a very good basis for collecting revenue. I would not care to predicate the ratio of willingness to pay when collection time came around.

4. In regard to the penalty clauses in present electric rates, the main charges of that type are for excessive reactive power requirement and to assure a return on investments in facilities required by the customer capacity, by adding specific clauses to cover those conditions. In general, penalty clauses are also designed to provide relief. For example, power factor clauses for reactive power usually offer discounts or savings for improved power factor. Capacity charges are usually lower with increased use and higher capacity requirements. Penalty charges, in general, are applied only when the requirements of the customer are abnormal.

In regard to the rate engineer's work, his major efforts are expanded in economic studies and to determining what the costs are in providing the various classes of service. Those findings are then used, not to penalize the customer but to design schedules to avoid unfairly penalizing any customer. The main purpose of these detailed studies has been to cure some of the inequitable charges made in the past.

The tremendous growth of the electric business in the past few years seems to indicate that the modern rate structures, now being used, provide greater incentive for the use of electric power than those used in earlier years.

In general, farm and home rates are the same, except in cases where a commercial business is being operated on the farm premises. Stores and restaurants are almost universally served on the same commercial rate. The exception would be where the customer had some special load requirement.

In regard to off-peak and interruptible service rates, both are highly promotional and designed to provide service under special conditions at rates in line with the costs incurred. Such business could not be obtained by applying firm service rates, and it would not be equitable or fair to do so, since that type of high-quality service is not being provided or desired.

Nearly all of the rates for service do award a lower charge for improved load factor, for the same reason that the car rental driver receives a lower overall rate per mile with the increased miles driven.

Electric utilities operating under state regulation have been of tremendous success as to growth and lowering the cost to the consumer, therefore it would seem desirable to continue this plan which has been so successful and unique in our country.

If earlier customers were not reproached for heavy demands and poor load factor, we can be quite certain that those factors were not significant at the time, since power loads were generally small and usage by the consumer fairly consistent.

—ORRIN S. VOGEL,
St. Petersburg, Florida.

Gas Booklet Published

THE American Gas Association, in cooperation with the American Geographical Society, has just released a 64-page full color booklet entitled "The Natural Gas Industry," by Harold W. Springborn, published by Nelson Doubleday, Inc.

This booklet has been distributed to more than a quarter of a million subscribers to the American Geographical Society's "Know Your America" series and in addition it has gone out to some 200,000 customers and stockholders of the gas industry.

The booklet is designed to give the reader an uncomplicated glimpse into the many facets of the gas industry. The history of natural gas, its origins in the depths of the earth, the complicated methods of pumping, etc., are all explained in terms that any layman will find interesting and informative. The entire text has a "developmental" sense in that the early days of the industry are recalled, without once neglecting the present-day technological status of gas.

Of special interest is the center fold which contains 29 full color labels which are designed to be pasted in appropriate places provided for in the text. These pictures are devoted to such subjects as gas drilling, pumping stations, geologists searching for new fields, etc.

THERE is no doubt this booklet will be of great help to students and the general public who are interested in knowing something of the natural gas industry.

Copies of this excellent publication may be obtained at nominal cost through the American Gas Association, 420 Lexington avenue, New York 17, New York.

California Water Project Outlined

THE *Sun*, Baltimore, Maryland, recently carried an article by Ruth Newhall, entitled "California Water."

Miss Newhall states that the average citizen in southern California uses about 180 gallons of water daily. The population in this area—which until recent times was a desert—is increasing by about 300,000 per year. About 60 per cent of the state's population is settled in an area which can claim only 2 per cent of the state's water resources. High cultivation, large population areas, and scant rainfall in this area draw off 77 per cent of the total water used in the entire state. Considering the great demand that is placed on water resources, it is possible that the entire area could revert to barren sagebrush country by the year 2000.

The California legislature has taken the first steps to prevent such a development by initiating the largest water development plan ever conceived. The project will cost an estimated $2 billion, which is more than was spent on the Tennessee Valley Authority or the St. Lawrence seaway project. Of this total $1.75 billion would be drawn from state funds and the remainder

"ANOTHER *PUBLIC UTILITIES FORTNIGHTLY* SUBSCRIBER"

would be obtained from federal and private sources of finance.

The project involves collecting water in northern California and transporting it by aqueducts 400 to 700 miles south. The majority of this water will have to flow through a seven-mile line, which will run at an elevation of 3,500 feet. Pumps will lift the water to this altitude and the fall of the water on the other side will be converted to power for the lifting pumps.

One cannot help but wonder if such power generation will be restricted to generating electricity for pumping activities or if it will be expanded into the production of power for general consumption. Such projects, as we have seen in the past, have a habit of expanding into the power-generating field, even though the original project might have been water conservation or flood control.

Miss Newhall points out that California's peculiar geography has produced a state which, in its northern two-thirds, is a giant mountain-rimmed bowl. The bottom of the long thin bowl is the 400-mile-long Central valley. Water in this bowl, flowing down from the snow-covered Sierra Nevada mountains, exits to the sea through San Francisco Bay and the Golden Gate. Despite the existence of dams, including Shasta dam on the upper Sacramento river, water enough to support 100

million people flows out to sea each day.

The southern section of the state—that area below the "bowl"—is a great desert. This dry area includes Los Angeles and San Diego, the largest population centers in California.

The article states that the solution to California's water problem involves the construction of a dam across the Feather river at Oroville, California. The Feather is the chief tributary of the Sacramento and was the source of the devastating floods in 1955-56. The first storage reservoir would be behind San Francisco Bay and would be used to augment San Francisco's water supply. Aqueducts would also carry water to the proposed San Luis dam on the west edge of Central valley. At the present time this area is irrigated by deep wells; however, recently these wells have shown grave signs of depletion. To reach the city of Los Angeles, water will have to be piped over the Tehachapi mountains. From there it will go to San Diego and coastal areas.

THE plan began to assume some sort of reality in 1954 when the Tidelands Oil Act was upheld by the U. S. Supreme Court. Under this court decision the oil which is under beaches and coastal waters was taken from the federal government and given to the states. As a result, some $60 million in disputed funds were turned over to California. Some of this money was immediately turned over to the Division of State Beaches and Parks for the purchase and development of recreational areas.

The remainder was set aside, amid much debate as to whether it should be used to defray general state expenses or if it should be used for water development. California's governors have favored the use of the funds for water development.

Miss Newhall points out that attempted action under Governor Goodwin J. Knight was defeated by "sectionalism." Under Governor Edmund Brown, and an unprecedented Democratic majority in both houses of the legislature, a victory for the project was won and three concrete moves have been made. First, the legislature has declared that royalties from oil resources should be turned over to water development projects. Thus, the depletion of one state resource will help to build up another. Secondly, it was voted to submit a $1.75 billion bond issue to the voters in November of 1960. Thirdly, $83 million was allocated from oil revenues on hand to begin construction of the Feather river dam and the acquisition of rights of way for the aqueducts.

IT is pointed out in the article that the federal government will assist California in the Oroville section of the project (a flood-control measure) and in the San Luis dam (a reclamation project). However, the bulk of the system will be state-financed and much debate and argument are expected before the system is completed.

It is noted by Miss Newhall that one of the stumbling blocks is southern California's demand that water amounts be guaranteed in perpetuity. Northern California wants the assurance that they will be left with enough water should an extended drought set in. Further complicating the project is the fact that some experts claim that diversion of water from northern areas will cause an intrusion of sea water into these northern farming areas. In addition to all of the other problems, the residents of northern California feel that they will have to share the expensive water bill for transporting water to the southern area.

One gathers from Miss Newhall's article that a veritable "liquid" Mason-

Dixon line exists in the Golden state. She notes, however, that when the bond issue comes to a vote in 1960 there are still the problems of extended droughts, sea water intrusion, and such matters to be settled. The 1960 vote should indicate the general feeling of California residents concerning this problem. The article in the *Sun* provides a clear background to a project which has a labyrinth of complications, issues, counterissues, and misunderstandings.

Financing *versus* Rates in the Gas Industry

EXECUTIVES in the gas industry devote much of their time, an editorial in the August issue of *Gas* magazine tells us, to problems of financing and adequate rates in an effort to counteract the adverse effects of inflation. The editor says that in the past the industry has successfully financed its heavy construction programs. But he warns of the dangers implicit in the long-term trend of higher interest rates. He states:

> . . . In view of the tremendous economic expansion anticipated in the 1960's, the long-term outlook for interest rates is upward, as the trend has been since 1946. Since then, each peak period in interest rates has been higher than the previous peak. Recognition by utility commissions of this continued high cost of money is a requisite for the years ahead if utilities are to maintain the growth necessary to sustain the dynamic economic expansion expected.

The element of inflation is gaining recognition in utility rate making. As the economy continues to become inflated, operating costs, among other things, continue to mount. The problem that faces regulatory agencies from time to time is how to keep this slippage from becoming so pronounced that it results in deterioration in the overall financial condition of a utility company. It is inevitable in that kind of situation that the public interest must suffer because the company is then sent into the money market in a disadvantageous position.

The editorial doubted that utility stocks could continue to be attractive to investors in view of their poor showing in contrast to manufacturing stocks. In the last twenty years such stocks have been twice as good by and large as those of utilities. Unless utility stocks can improve their performance to a marked degree, they will be unable to compete satisfactorily with other common stocks in the future.

REGULATORY bodies must take cognizance of these facts in determining the rate base and the rate of return. "The public utility commissions have a variety of methods for compensating for the erosion in earnings caused by higher costs of materials, labor, and capital."

According to the article in *Gas* magazine, attrition, as an aspect of rate cases in these inflationary times, has been recognized by the Montana commission. It bases its findings on actual operations rather than a test period. After results are obtained, the commission considers attrition and what effect future times may have upon the rate of return.

The New Hampshire Public Utilities Commission provides an allowance for attrition based on a judgment figure arrived at by applying the allowed rate of return to the difference between the average and year-end rate base. Ohio statutes

"IS THERE NEW STANDARD PROCEDURE FOR DISPOSING OF WORN-OUT SEALS?"

require the commission to use as the rate base, reproduction cost new less existing depreciation, which is supposed to provide a cushion against the impact of attrition.

The New York Public Service Commission has no formula for treating attrition, but it does give consideration to the factor; treats it on a case-by-case basis. Recently in New Jersey the department of public utilities provided for attrition by finding depreciated original cost and adding a reasonable allowance for the net investment to establish a "fair value" base. It then found that a rate of return of between 6 per cent and 6.37 per cent was reasonable.

SOME conclusions that were arrived at in the *Gas* editorial from a study of commission decisions were as follows. First, a generally accepted definition of attrition as applied to the utility industry is:

> It is the decline in the per cent earned on the rate base due to the replacement of plant items at price levels higher than those experienced when the original plant items were installed; it also comes about by additions to plant at a unit cost higher than the average cost of existing units.

The majority of regulatory agencies are aware of attrition as a factor in the

rate-making process today. But no single factor has been evolved for dealing with or providing for the attrition factor. Those commissions which adopt a "present fair value" or "reproduction cost new" rate base feel that the rate base itself compensates for any erosion brought about by the attrition factor.

Those commissions which use the "net investment" rate base handle attrition in one of three ways:

(1) By an addition to the rate base to include a sum for extraordinary investment made by the utility; or

(2) Through an adjustment upward to the rate of return authorized as reasonable by the agency in view of the existence of the attrition factor; or

(3) Through the use of year-end rate base where previously rates had been established on an average investment rate base.

THERE is no doubt but what attrition will remain an important factor in the utility rate-making process for the future. The decline in the "real value" of the dollar, with its consequent erosion of values and earnings, will have to be compensated for, as well as be anticipated by, regulatory commissions if utilities are to remain financially healthy.

—J. W. H.

Opinions on Federal Power Ownership

THE Wage Earner Forum, sponsored by McFadden Publications, Inc., has conducted a survey to test the American wage earner's opinions on the subject of government ownership of power companies. The conclusions reached are based on the response to a set of questions forwarded to 1,500 wage earner families distributed throughout the United States. Two sets of questions are mailed out to each family—one to the husband and the other to the wife. In reality, therefore, the sampling is based on 3,000 responses.

The forum reports that on the basis of its study the wage earners are about evenly divided (41 per cent for government ownership—43 per cent against such ownership) as to whether the government should own power companies. However, 61 per cent concede that they believe government-owned companies would be less efficient and a meager 23 per cent believe that government operation would be more efficient.

When one considers the tremendous amount of "good will" which exists between power companies and the public they serve it seems paradoxical that, according to the sampling, 65 per cent feel that government operators of power companies would be less interested in their customers. If this is true it seems difficult to resolve the fact that 41 per cent feel that government ownership would be a good idea. Apparently a number of persons sampled believe in government ownership and expect that the persons employed by the government will not be interested in providing good service.

THE report states that 41 per cent of wage earners believe that government ownership would produce lower power rates since the federal plants would not have to make profits. Seventy per cent of those asked felt that the government should pay the same taxes as a private plant. This too reflects a number of paradoxes in public thinking.

Surveys of this type are of great inter-

est and value since they point out that in general the public has but a dim idea of the ramifications of government ownership *versus* private ownership. This writer has seen the results of several tests given to college students asking such basic questions as "Who discovered America?" The results of these tests were amazing, to say the least, and the obvious paradoxes noted in this report point out that it is imperative that more and more time be given to education of the public on vital matters. The utilities have a great responsibility in this area and, indeed, it is to their benefit to see that the public understands their position and problems.

Utilities Keep Pace with Milwaukee's Progress

A RECENT issue of *Torch,* a publication of The Milwaukee Advertising Club, contained an article relating to utilities in the Milwaukee, Wisconsin, area. The author of the article, "Utilities Pace Community Progress," is S. Lloyd Nemeyer, president of the Milwaukee Gas Light Company.

Mr. Nemeyer points out that the years following World War II resulted in changes in the size and contour of Milwaukee. These "changes" are identical with the problems and challenges that beset nearly every large population or industrial center in the United States. Milwaukee's approach to these problems, therefore, is relevant to a good many other American cities.

Milwaukee was once a mid-American replica of Old World charm and elegance, but in a few years it has been transformed into a rising industrial giant. The physical size of the city has increased and what once were untouched fields have become suburban communities. The population has expanded, the harbor area has grown, and in general the economy of the area has mushroomed. Every field of endeavor has been strained to keep pace with the demands for homes, services, and products. Under these circumstances the utilities have been under special strain and Mr. Nemeyer notes:

> Nowhere, however, has the strain been felt more than in the areas of energy and communications—the utility industry—without which Milwaukee's burgeoning economy could not have prospered.
>
> Natural gas, electricity, the telephone and the telegraph have played majo. rôles in this growth, not only by providing greater service to existing customers, but by anticipating the needs of new areas as empty fields gave way to factories, stores, churches, schools, and homes.

IT is stated in the article that one of the greatest burdens on the utilities is the anticipation of growth that will take place in a given area. Nonutility segments of the economy can sit back and take advantage of growth trends as they arise. The utilities, on the other hand, must anticipate and plan for growth and then they must be there to help the growth take place.

Power expansion in the area, the article notes, has been tremendous. Wisconsin Electric Power Company, serving the Milwaukee metropolitan area, has been constantly in the position of planning new generating and transmission facilities while still in the process of completing those plants which were planned months or years ago. The Oak Creek Number Five plant, with a capacity of 250,000 kilowatts, is still under construction and Wis-

consin Electric already has filed a petition with the public service commission of Wisconsin for permission to construct a new facility of the same power capacity. Such advance planning requires accuracy in predicting power demands, growth and shift of population, and the expected per customer increase in the use of electricity.

Mr. Nemeyer observes that one of the serious problems confronting the utilities is that of making the operation attractive to investors who provide the needed capital for expansion. At the present time Wisconsin Electric Power Company is spending approximately $40 million per year for improvements and additions to its facilities.

THE Milwaukee Gas Light Company has also felt the strain of expansion. In 1949 the company's service area contained 9,085,000 feet of gas mains. At the end of 1958 the company's mains totaled 13,259,000 feet. Service lines have also increased by an estimated 10 million feet. Expansion projects for 1959 are expected to run to $11 million. Not only has there been the problem of supplying new mains but there has also been considerable attention given to accumulating additional supplies of natural gas. The article states:

> It must be remembered that all of the facilities existing today for the comfort and convenience of the gas customer were planned years in advance. As pointed out earlier, the constant driving force behind planning is the need to anticipate where and when gas will be needed and then make sure supplies are available at the right spot in the right quantity at the right time.

THE article observes that the communications portion of the utility industry has been required to find more new solutions in meeting expansion demands than any other single industry. The irregular expansion pattern of the metropolitan Milwaukee area is of special concern to the phone company. In 1945 the Wisconsin Telephone Company was serving 215,600 telephones. Today the figure has jumped to 470,930—an increase of 118 per cent. In addition, the growth of installations in the Milwaukee area, over the past fourteen years, has set a record unequaled in the company's 76-year history. Some idea of the vast growth within this company can be gained when one realizes that in 1945 the investment of the Wisconsin Telephone Company in the Milwaukee metropolitan area amounted to $40 million; today, this figure stands at a total of $152 million.

The Western Union Company, which provides telegraph service to the Milwaukee area, has also experienced new demands due to expansion. However, Mr. Nemeyer notes that only population increases have placed demands on the company. Message totals increase as population increases and an expanding metropolitan physical area does not produce this effect. Milwaukee has experienced a population increase and new demands, therefore, have been placed on the telegraph company. The article notes that expanded use of the telephone to phone in telegraph messages has played down the importance of telegraph branch offices.

ARTICLES of this nature help to inform the public of the vast debt that they owe to the various utility companies. These companies not only offer services vital to the community but they also, through advance planning, insure that an area will be able to grow and meet the demands placed on metropolitan areas by such factors as increased population, shipping, and industrial growth.

The March of Events

TVA Foreign Purchases Triple

THE Tennessee Valley Authority has spent three times as much money on foreign-made equipment during the year ended June 30th as it did during all the previous years since its inception in 1933.

TVA has recently disclosed purchases totaling $125,936,788 for materials, equipment, supplies, and nonpersonal services. Of this amount $66,924,517 was for manufactured goods, such as turbines, generators, and transmission lines, $51,931,238 for raw materials such as coal, and $7,081,033 for miscellaneous services.

Some 27 per cent of the money for manufactured equipment went to foreign companies. This amounted to $17.9 million. Only $5.6 million had been spent for such purchases for all previous years since 1933. Most of the money went for generators and transformers.

Methane Ship Tests OK

AFTER a year and three successful voyages, during which the *Methane Pioneer* transported liquefied gas—or methane—to London, England, from Lake Charles, Louisiana, the vessel has been declared shipshape and is now on its fourth "gas mission."

The inspection of the ship was made by the American Bureau of Shipping and Lloyd's Registry of London. The *Pioneer* was found to be in tiptop condition.

The Constock Liquid Methane Corporation, which with the British Gas Council is a joint owner of the *Pioneer,* is negotiating with shipyards for 10,000- to 25,000-ton versions of the liquefied gas carrier. The present vessel cost $5 million.

Apparently the special design of the *Pioneer* has enabled its owners to surmount what was considered an inherent difficulty of transporting liquid gas—the vaporizing of part of it into a highly flammable gas.

The Constock company is reportedly negotiating to build a $25 million gas liquefying plant in Venezuela. It is said that the company may charge 35 to 70 cents per one thousand cubic feet for gas delivered in England where it costs $1.60 per one thousand cubic feet to manufacture it.

California

Ruled a Public Utility

THE California commission has ruled that Richfield Oil Company is a public utility. Richfield, which sought to sell natural gas under contract as boiler fuel to Southern California Edison Company, was construed to be a public utility in connection with such operations and ordered

to obtain a certificate before constructing facilities to connect Southern California Edison Company; and also to file tariffs and other data disclosing the cost and price of such service to Southern California Edison.

This decision resulted from a complaint by Southern Counties Gas Company asking that the commission stop such sales of gas in its service area unless and until Richfield asked and received a certificate.

Southern California Edison filed an application for a certificate to cover the construction on the theory that Richfield Oil could proceed as its agent. But the commission held that this was not so, and that Richfield must file tariffs and obtain a certificate, meanwhile keeping a record of sales in case of eventual refund. Further investigation has been scheduled.

Illinois

Experimental Bus Tested

THE general manager of the Chicago Transit Authority (CTA), Walter J. McCarter, reported that successful preliminary tests have been completed toward the development of an electronically self-guided bus. For the next six months CTA will experiment further with an industrial plant truck equipped with the electronic guiding devices in its south shops area.

Meanwhile, McCarter said, an experimental bus will be equipped at a cost of $12,000 for future road tests. More extensive tests are planned later on an outlying section of Cook county highway, which will be equipped with wires to provide the electronic impulses for guiding the test vehicle on the roadway surface.

"The objective of the experiment is to develop a self-guided bus that could be operated automatically on a separate transit lane of a type planned for the southwest expressway," McCarter explained. He said such self-guided buses could be operated as individual buses or as trains of buses.

Massachusetts

Wholesale Gas Rate Hike Suspended

THE Federal Power Commission has suspended until December 1st a $4 million, or 12 per cent, annual wholesale natural gas rate increase proposed by Algonquin Gas Transmission Company of Boston, Massachusetts.

The proposed increase would affect 25 customers in Massachusetts, Rhode Island, Connecticut, New York, and New Jersey. The higher rates are needed, the company stated, to offset the increase in the cost of gas purchased from its sole supplier, Texas Eastern Transmission Corporation of Shreveport, Louisiana.

Texas Eastern filed a rate increase in May, 1957, which has been in effect, subject to refund, since November, 1957. It recently filed a further increase which is under suspension until December 1st. Algonquin claims these two increases will raise its cost of purchased gas by $3,950,000 annually. And it also claims that a 6½ per cent rate of return is necessary.

The FPC declared that since Algonquin's proposal relies on increased rates and charges of Texas Eastern, which have been suspended and have not yet been shown to be justified, it is subject to change.

Moreover, the commission stated, Algonquin has not fully supported other aspects of its proposed rates and charges.

Missouri

Would Intervene in Gas Rate Case

THE city of Kirkwood has asked the state public service commission for permission to intervene in Laclede Gas Company's application for a $4,880,000 annual rate increase. In its petition, Kirkwood's attorney asked the commission to require "strict proof of the Laclede Gas Company to sustain its cause."

Also sought was an extension of time after Laclede presents its case this month, in which Kirkwood can reply.

Laclede, in asking for an increase of $4,880,000 in its operating revenues, said this amount would only give it a net of $2.2 million because of state and federal taxes plus gross receipts taxes of municipalities in which it operates.

Rising costs and the need to raise more money for expansion were given as the reasons for asking higher rates. The average residential customer would pay about 33 cents a month more on his bill if he does not heat with gas, $1.39 more a month if he uses gas for heat.

New Jersey

Referendum Approved on Rail Aid Project

UPON completion of a hearing the state senate approved a referendum which would clear the way to give financial assistance to distressed commuter railroads in New Jersey. However, the senate will reconvene to consider the referendum which was approvd the early part of August by the assembly.

If finally OK'd, the referendum would be presented to the voters at the November election. It calls for the placing of the state's credit behind $430 million in New Jersey Turnpike Authority bonds, provided the bondholders agree to the state's tapping of the authority's surplus revenue.

The money would be used not only to aid the railroads, but also to assist hard-pressed bus concerns and to improve state highways. It was estimated that a total of $570 million could be gleaned from the toll road surpluses between now and 1988 when the bonds are due to be retired. Commuter groups expressed themselves as favoring the plan.

New York

Report Asked on Power Failure

THE city of New York has called for a report from Consolidated Edison as to the cause of the nearly 13-hour power blackout on August 18th in a five-square-mile area in upper Manhattan. Also requested were suggestions as to how to prevent a recurrence of such an episode, which disrupted the lives of about a half a million people.

The first assumption that the blackout occurred due to an overload of cables and their subsequent burning out from abnormal use of air coolers may not prove to be correct. At least Consolidated Edison spokesmen were not sure just what had caused the trouble. Their engineers will doubtlessly discover the reason for the breakdown.

But the reaction of the public to being suddenly deprived of light, radio, TV, elevator service, air coolers, and refrigeration will never be fully explained. Tempers flared as traffic was inextricably snarled. Crime diminished, few accidents were reported. And owing to the speed with which Con Edison restored service there was no major food spoilage.

Gas Rise Canceled

In July Consolidated Edison sought permission to raise its rates one per cent, for a total of $672,300 a year increase, to offset a one per cent increase in New York city's excise tax. At the time the company still had pending a plan to raise electricity rates by $3,625,000 in New York city which was being investigated as part of a general investigation of electricity rates. When the one per cent increase was asked for, the state public service commission suspended the plan and ordered a public hearing on the gas rate phase.

Now Consolidated Edison has been granted permission by the PSC to cancel its one per cent rate proposal and at the same time it is allowed to reduce gas rates by $220,000 in Westchester county.

Consolidated Edison explained that it did not intend to raise gas rates in Westchester county since the excise tax was imposed for municipal purposes in New York city. The company decided to reduce rates in Westchester to "avoid less discrimination" against its customers there.

And the gas rate increase was withdrawn in New York city, a company spokesman declared, because "it had been suspended by the PSC and there appeared to be no immediate chance of its going into effect."

Pennsylvania

Parties Stipulate Return Allowance

The parties to the rate case involving a proposed $4,786,500 annual gas rate increase for the Manufacturers Light & Heat Company of Pittsburgh have agreed on the rate of return allowance. The proposed increase is still in litigation but the issue of whether the company should seek a higher rate of return than that allowed by the commission in its last rate case (February, 1958) has been agreed upon by the parties, including Manufacturers Light & Heat Company and the city of Pittsburgh. Under the stipulation agreed upon the rate of return will not exceed 6.4 per cent, which was the amount authorized by the Pennsylvania commission in the 1958 case, as compared with the company's original request of 6.75 per cent for a rate of return allowance.

In other words, the city and the complaining parties agreed not to press for a lower rate of return and the company agreed not to ask for the higher rate than the agreed amount. (In the August 13th issue of PUBLIC UTILITIES FORTNIGHTLY it was erroneously reported that a 6.4 per cent rate increase had been obtained.)

Texas

Gas Tax May Start Lawsuit

Lawsuits are threatened by pipeline companies and others over a new "severance beneficiary" tax of 1.5 per cent which has been imposed on pipeline companies. The tax is based on the market value of gas purchased by what it called the "first purchaser" of the gas from the producer.

Opponents of the measure contend that under the state Constitution gas severance taxes cannot be imposed on any transaction other than the actual withdrawal of the fuel from the ground. Texas already has a 7 per cent production tax on the market value of gas which is paid by the owner and lessees of the land.

A gas-gathering tax of 1951, similar to the new "severance beneficiary" tax, was found by the U. S. Supreme Court to be an unnecessary burden on interstate com-

merce. The new gas tax, which is aimed at obtaining revenue from companies that pipe natural gas out of Texas, will net about $8 million a year.

Authorizes Giant Pipeline

THE Transwestern Pipeline Company of Houston has been granted a certificate by the Federal Power Commission to construct a gigantic pipeline system with a capacity to handle a daily supply of 300 million cubic feet of gas for the southern California markets. It will cost about $191.7 million. The certificate for the project was granted with the condition that there be a reduction in the proposed price for the gas.

The FPC, reversing its own examiner because he did not specify a prior price limitation before recommending approval of Transwestern's plans, followed very carefully the language and reasoning used by the U. S. Supreme Court in the so-called "Catco" case, dated June 22nd.

Orders $15 Million Refund

THE Federal Power Commission has ordered the El Paso Natural Gas Company to make refunds, estimated at about $15 million (including 6 per cent interest) as part of a ruling which shaved El Paso's proposed $18,841,000 annual rate increase to $14.5 million.

The company is the principal pipeline wholesale supplier of natural gas to distributing natural gas utilities on the West coast. The refund will be composed of amounts collected under bond since April, 1955, in excess of the increase finally approved. (For further details, see page 433.)

Rate Increase Granted

HOUSTON city council finally granted a rate increase to United Gas Corporation which will mean about 85 cents a month more on the average residential user's bill. This is about half of the amount sought by the utility.

According to city hall analysts, the boost is practically the same as that given Houston Natural Gas two months ago. Houston Natural's increase figures out to about $1 a month more on the average residential customer's bill. But the average home in this company's area is larger than that served by United Gas.

United has 176,440 customers in the Houston area, Houston Natural has 142,-268 customers. The boost will give United about a 5 to 8 per cent return on its investment.

Virginia

Gas Price Inequities Charged

NEARLY 4,000 county users have been paying less for city gas than the city of Richmond. This situation has been true since the first of July, when a 100 per cent increase in the city's tax on utility bills became effective.

This comes about because the tax applies only to the bills of Richmond customers and the city is not permitted to tax county residents. In the past, however, the county tax rate on gas has been high enough to make up for the absence of a tax.

No adjustment has been made to equalize city and county gas charges since the utility tax rate was increased from 5 to 10 per cent of the monthly bill.

A report on the situation has been asked by Councilman Robert J. Heberle who said the inequity would be corrected. Apparently the problem has been under study, according to city Utilities Director J. Edward Metzger. Possible increases will probably be considered.

Progress of Regulation

Trends and Topics

Burden of Extra Cost of Underground Electric Service

THE rapid expansion of suburban areas served by electric companies presents questions as to the duty to extend service in view of the costs and expected revenues, and in some cases the question whether overhead or underground systems should be installed. If an underground system is installed, there is not only the question of a possible rate differential (discussed in PUBLIC UTILITIES FORTNIGHTLY, August 13, 1959, at p. 313) but also the question of who will carry the burden of the excess cost of underground construction.

Applicable rules have apparently been adopted by electric companies, but only a few cases dealing with this question have resulted in expressions of opinion by commissions and courts. Some decisions rule on extension costs while others relate to changeovers from overhead to underground service.

Underground Extensions

The California commission recently dismissed a complaint by a city seeking to compel the Pacific Gas and Electric Company to provide service and bear the cost of underground facilities required by ordinance in certain districts. The company had insisted that applicants for service pay the cost of underground facilities in excess of the cost of overhead equipment. The city urged that this was discriminatory. The commission, although noting that there might be a revision in existing rules, supported the company's practice of requiring applicants for underground service to pay the estimated cost of providing such facilities less the cost of overhead facilities. The commission observed that this was the general practice of all electric utilities in the state (29 PUR3d 81).

The Massachusetts commission, several years ago, held that it could not order an electric utility to install underground service, from a conduit along a street, to a residence being built in a real estate subdivision when the cost would be greater than would be warranted, since under the applicable statute

no such order may be made where it appears that compliance would result in permanent financial loss to the utility. The commission said that the rank and file of customers should not be asked to finance an inordinately expensive extension of facilities into a real estate development, with no assurance to the company of ultimately receiving a fair return on the money.

In that case the town had refused to grant a pole location, and the commission could not overrule the decision of the town authorities. The remedy was said to be political and not administrative. The commission ordered the company to furnish service by means of overhead wire construction provided that the necessary pole locations were granted by the town; and it further provided that if such locations were not granted, the complaint against refusal to serve should be dismissed (73 PUR NS 56).

The Pennsylvania superior court, in affirming a commission order relating to the terms upon which electrical extensions should be made to a row of houses, referred to a filed tariff rule providing that customers desiring underground service from overhead wires must bear the excess cost. The applicant for service had constructed these houses, and there was a disagreement as to how the extension of service should be made and as to the terms of a right-of-way agreement. Underground service could be extended, but the applicant refused to pay the differential, although installation of underground service to the front of the premises would obviate the necessity for a right-of-way agreement for lines in the rear. The court said that to permit the applicant to receive such underground service at no cost to him would not only be in direct violation of the tariff rules, but would be discriminatory as against all of the utility's other customers (17 PUR NS 497).

Connection Charges after Change to Underground Service

An unusual case come before the Massachusetts commission several years ago after Edison Electric Illuminating Company, in compliance with a municipal order, had removed all its poles and wires on one road and substituted underground service. The company did this at its own expense, including construction work on private property. Two customers on that road requested the company to give them underground service but the company refused to do this because their service came from poles on another road, which was not included in the municipal order, and because of the expense. These customers accepted this refusal and took no further steps to enforce whatever rights they had by petition to the commission.

Later the company, under a similar municipal ordinance, was making a like change in service on the other road. The work on private property was being done at the expense of the respective owners, in accordance with the present practice of the company. These two customers were unwilling to pay this expense and asked the commission, in substance, to treat their cases as if their service came from the road where underground service had first been installed, under the company's practice then instead of the present practice.

The commission said that the real problem arose from the fact that these customers belonged, in a sense, to both groups and might perhaps by reason-

ably final election have created a definite right to be regarded as belonging to either of the two groups they chose. The commission decided that in not persisting and enforcing their election to be served from the other road, they had waived whatever rights they had (PUR1925C 862).

One of the earliest reported decisions on underground service connections was based upon a complaint to the New Jersey commission, in 1916, against the reasonableness of charges for establishing underground electric connections between the premises of the complainant and the distribution system of Consolidated Gas Company. The company had been required by a municipal ordinance to provide an underground conduit system. The company installed main-line conduits and manholes, but service connections to various customers had not been installed because the company and these customers could not agree as to the method of dividing the cost of installation. The company had adopted the rule that customers must pay the entire cost of the conduit and cable from the curb line into the building, the cost of the cable terminal inside the customer's premises, and the cost of the main-line switch and cutout from its enclosing iron box.

The commission required the company to adopt a rule which had been adopted by Public Service Electric Company providing that the utility should pay the cost of the conduit and cable from the curb line into the building, if the distance is not greater than 30 feet, and the cost of the cable terminal inside the customer's premises, the customer being required to pay the cost of the main-line switch and cutout with its enclosing box (PUR1916D 80).

Review of Current Cases

Resales, Proxy Expense, and Advertising Costs Considered in Approval of Electric Rates

INCREASED rates filed by Union Electric Company and suspended by the Missouri commission for several months have now been allowed to become effective. It was found that the new rate levels will yield a reasonable rate of return of 5.25 per cent on a fair value rate base.

The greater part of the company's service is in Missouri and includes the city of St. Louis, portions of six adjacent counties, and portions of three counties in central Missouri. As of September 30, 1958, the end of test year, it had nearly 500,000 Missouri customers.

Since the last rate increase in 1953, the company has averaged $36 million in construction expenditures per year and has budgeted much larger expenditures for the next few years. The costs of doing business have continually increased. The increase in wage levels alone in recent years has completely absorbed the 1953 rate increase.

A large increase in the summer load due to air conditioning has required substantial capital investment. The commission approved the placing of a large proportion of the necessary rate burden on residential and general service customers, who are responsible for increased load requirement.

Resale Regulation

The St. Louis Housing Authority objected to a company regulation which would prevent the resale of electric service by future public housing projects. The commission was of the opinion that to charge the housing authority for electric service furnished in some of its housing projects, which service is included in the rent paid by the tenants, and in other housing projects to charge the occupants directly would be discriminatory. Public housing projects were, therefore, eliminated from the regulation. It will otherwise apply to new residential and commercial buildings.

Two public petitions addressed to members of the legislature requested them to use their influence with the commission to prevent the company from charging individual tenants directly for electric service.

Although the petitions were filed with the commission, they were not received as evidence. In justice to the legislators, the commission stated that no influence had been used by them. All matters before the commission, it was pointed out, must be decided on the evidence and not on petitions or political influence.

Management Controls Stock Rights

Two interveners dwelt at some length on the question of pre-emptive subscription rights, a matter admittedly of but "subtle" materiality. They maintained that the issuance of stock rights would eliminate or lessen the necessity of attracting capital. The commission noted that this would depend on whether the stockholders took advantage of the right to purchase the additional stock. By statute the pre-emptive right of shareholders may be limited or denied to the extent provided in the articles of incorporation. Management has a right to decide its course of action in this respect, said the commission, and it is not for the administrative agency to assume the rôle of management in the operation of the company.

Proxy Expense and Advertising Costs

The commission ruled that expense incurred with reference to shareholders voting by proxy is a legitimate operating expense. The law provides that a shareholder may vote either in person or by written proxy. Blank proxies should be forwarded by the company in the same manner as notices of meetings, said the commission. Shareholders may then authorize management to vote their proxies, or they may give them to someone else.

Advertising costs in the amount of approximately $41,000, paid to the electric companies advertising program, were claimed as an operating expense. It is a recognized fact that the principal purpose of advertising is to create good public relations and stimulate a demand for the service or product advertised, the commission said. Taking the view that management should control advertising expenditures as long as they are within the limits of reason, and since the commission was unable to find that the advertising in this instance would not result in a benefit to the ratepayers, the claim was allowed. *Re Union Electric Co. Case No. 14,039, July 16, 1959.*

Evidence of Competition Excluded in Proceeding on Accounting for Power Companies' Advertising

THE Federal Power Commission has affirmed an examiner's ruling excluding evidence offered by private electric companies purporting to justify as an op-

erating expense the cost of advertising on behalf of private power as against public power. Hearing was ordered reconvened in the proceeding, instituted on commission order, questioning 76 electric power companies' accounting for such advertising expenditures.

By the proffered evidence, the companies had sought to show that investor-owned electric power companies are faced with a strong and vocal program by the advocates of competitive public power and that this program fosters government competition through competitive sales as well as by taking over private facilities. The evidence attempted to show that the public was being misled by public power interests as to the relative benefits of public power and private power and as to tax discrimination.

Argument in Political Controversy

Arguing that the examiner's ruling was correct, staff counsel contended that the expenditures involved the presentation of argument in matters of political controversy. It urged that, under the commission's interpretation of the Uniform System of Accounts, such expenditures must be classified in Account 538, Miscellaneous Income Deductions. Only evidence as to whether the expenditures involve presentation of argument in matters of political controversy is relevant, it was argued.

The companies contended that the expenditures were ordinary and necessary in the operation of their businesses and intended to promote the sale of electricity. They argued that the classification of such expenditures as miscellaneous income deductions would violate the Federal Power Act provision for proceedings in which accounting entries questioned by the commission may be justified. It was also contended that to deny the companies the right to charge the expenditures as an operating expense solely because the subject matter is of an argumentative nature in a political controversy would violate their constitutional right of free speech.

The commission rejected the companies' arguments. Political expenditures in general are unacceptable as operating expenses for regulatory purposes, it was observed, since expenditures for political activities are generally incompatible with the objectives of utility regulation and have a dubious relationship to the cost of rendering utility service. Moreover, as an accounting matter, there is a compelling need for separate classification and disclosure of such controversial expenditures, said the commission.

The commission was of the opinion that the advertisements on their face involved the presentation of argument in matters of political controversy, or had as their primary purpose the influencing of public opinion as to legislation. It held that the proffered evidence was without probative value to show the contrary with respect to the questioned advertisements. Consequently, in view of the commission's settled interpretation of the Uniform System of Accounts, the evidence was not admissible. No merit was found in the companies' contention that the expenditures were ordinary and necessary in the operation of their businesses. Nor was there any violation of free speech involved.

Advertising Necessary to Business

Commissioners Kline and Hussey concurred in separate opinions. Commissioner Kline observed that some political advertising may benefit the ratepayer directly or indirectly and may be a reasonable business expenditure and a proper charge against the ratepayer. In a rate proceeding, evidence would be admissible to show that such expenditures are necessary in the operation of the business.

Where there is actual competition between them, it is a proper business purpose for privately owned and operated electric-generating companies to employ public advertising to call public attention to a tax burden borne by the private companies from which publicly owned and operated electric-generating companies are exempt, Commissioner Hussey declared. He further pointed out that so long as the advertisements merely call attention to the special privilege enjoyed by the publicly owned utilities, and the competitive disadvantage to which the privately owned utilities are subjected, the advertising is not political solely because the competition against which it is directed is a governmental entity operating in a proprietary capacity.

But the commissioner thought the proffered testimony in this case was so bound together with the battle of public *versus* private power that it should be excluded "and the parties should proceed with simple proof of active present competition for specific customers or markets." *Re Alabama Power Co. et al. Opinion No. 323, Docket No. E-6836, July 15, 1959.*

Consideration of Reproduction Cost Not Mandatory in Rate Proceeding

THE Mississippi supreme court has upheld a commission order (16 PUR3d 415) denying Southern Bell Telephone & Telegraph Company a $2.5 million rate increase. The court held that the commission is not bound to the use of any particular formula in determining the reasonable value of the property of a public utility for rate-making purposes. Applicable statutes merely provide that the rates prescribed shall be such as to yield a fair rate of return upon the reasonable value of the property used in furnishing service.

There are a number of formulas which are useful in the determination of reasonable value, said the court, but no public utility has a vested right to any particular method of valuation. The Mississippi legislature had not intended to impose upon the commission a requirement that the so-called "fair value" formula laid down in Smyth *v.* Ames (1898) 169 US 466, 42 L ed 819, 18 S Ct 418, with its emphasis upon reproduction cost new, be adopted as a measure of value.

Probative Value of Evidence

The court did not hold that evidence of reproduction cost new less depreciation should not be admitted in a hearing on a rate case. If such evidence is admitted, it said, its probative value must be determined by the commission. The commission is not required to accept the opinion evidence of the company's witnesses blindly. There was nothing in the record to indicate that the commission's action in rejecting the opinion evidence relating to reproduction cost new less depreciation was arbitrary or unlawful.

The commission is the trier of the facts in a rate case, said the court, and in its consideration of various elements that are generally considered in determining the rate base, it is within its province to determine the weight to be given to the evidence, the reliability of the estimates and opinions, and the credibility of the witnesses. Rejection of evidence relating to reproduction cost as conjectural, speculative, unrealistic, and unreliable did not render the commission's order invalid. The commission had considered net original cost in its determination of reasonable value, and it also had testimony that 75 per cent of the company's plant

had been constructed since the close of World War II at postwar prices. Such evidence was sufficient to enable the commission to determine reasonable value for rate-making purposes.

Exclusions from Rate Base Justified

The court also held that there was no error in the commission's exclusion from the rate base of telephone plant under construction and an allowance for cash requirements. The commission had found that, under the Federal Communications Commission's accounting requirements, the total cost of telephone plant under construction, including interest, taxes, and other overheads, would be capitalized upon completion.

A substantial portion of such plant was designed for new customers and upgrading of present subscribers and there had been no evidence presented of anticipated revenue from such construction.

The substantial sum of money accrued by the company for taxes in advance of their due dates was considered sufficient justification for denial of a working capital allowance.

Debt Ratio

The commission's action in disapproving, as imprudent, the company's 22 per cent debt ratio, and in adopting a hypothetical debt ratio between 45 per cent and 50 per cent in computing cost of capital and allowable income taxes, was held neither arbitrary nor unreasonable. Although the determination of debt ratio is strictly a matter for management, the court said, its evaluation in fixing rates is an item for serious consideration by the rate-making body.

Whether bonds or stocks are issued has a profound effect upon the amount of federal income taxes which the company is required to pay. Debt ratio substantially affects the amount to be collected from the ratepayers for interest charges and dividends on the common stock. It is, therefore, an important factor in the determination of the rate of return and must necessarily be considered by the commission.

Rate of Return

The evidence was held to support the commission's finding that, with a prudent capital structure, existing rates would be sufficient to pay debt interest and compensate equity owners on the basis of an earnings-price ratio of 6.30 per cent to 6.40 per cent, which would be commensurate with earnings currently realized by investors in reasonably comparable enterprises. Despite a 72-day strike in 1955, the company had earnings for that year of $7.77 per share, a record high since at least 1945, and AT&T's earnings were higher than at any time since 1940.

With a prudent capital structure, the existing rates yielded between 4.96 per cent to 5.08 per cent on the commission's rate base. Such rate of return may appear to be low, said the court, as compared with the rates allowed in some other states in which the company operates. But the rate of return was not considered confiscatory by the court. A fair return, said the court, is one which, under prudent and economical management, is just and reasonable to both the public and the utility. The commission was held not to have erred in denying the requested rate increase. *Southern Bell Teleph. & Teleg. Co. v. Mississippi Pub. Service Commission, No. 41,026, July 2, 1959.*

Rate Increase on Interim Basis to Offset Higher Supply Cost

THE California commission authorized three gas companies to increase their rates, on an interim basis, in order to offset the higher price to be paid to their supplier. The commission had found that it would not be reasonable to ask these companies to absorb any of the increased cost of out-of-state gas. The increase was made subject to refund of any overcharge after final Federal Power Commission action on the supplier's rate increase.

The commission directed attention to the "duty" of the companies to resist vigorously all proceedings before the FPC which involve gas rates affecting California, to the end that the interests of the customers will be fully protected.

The commission was gravely concerned that the increase, all of which occurred in the commodity component at the state line, dollarwise was assigned more to the firm user because of the showing of potential loss of interruptible load if uniform amounts of increase in cents per Mcf were placed in the interruptible classifications. The companies were placed on notice that the commission's order was an interim decision and that a redistribution might be considered if changed conditions, including competitive fuel costs, warranted such treatment pending final decision by the FPC. The companies were also directed to survey and consider additional underground storage facilities or other means of serving customers, in the light of the trend of increasing source cost of gas, and the apparent inability to pass all such increases on to large interruptible customers. *Re Southern Counties Gas Co. of California, Decision No. 58793, Application No. 40958, July 21, 1959; Re Pacific Gas & E. Co. Decision No. 58791, Application No. 40926, July 21, 1959; Re Southern California Gas Co. Decision No. 58792, Application Nos. 40957, 40647, July 21, 1959.*

Capitalization Ratio before Consolidation Adopted

THE Louisiana Public Service Commission denied a gas company's application for a rate increase, concluding that the presently earned return of 5.2 per cent was reasonable. United Gas Corporation, the applicant in the case, was both a distributing company and a holding company, controlling pipeline and producing subsidiaries.

The company had used a capitalization ratio of 57 per cent debt and 43 per cent equity, but the staff had used the ratio prior to consolidation with the pipeline and the producing companies, which was approximately 65 per cent debt and 35 per cent equity. The commission held that the more logical approach, since only the distributing and operating facets of the overall operation were involved in the rate case, was to use the ratio before consolidation.

Normalization of Test Period

In its initial presentation, the company had used the calendar year 1957 as its test period. Inasmuch as almost a year had elapsed since the end of the company's test period, the commission's staff suggested that the calendar year 1958 be adopted as the test period. The company, although preferring the year 1957 as the "correct test period," was not averse to the use of the following year provided normalization adjustments were made. The company claimed that 1958 was abnormally cold and that sales for that year were much higher than during a normal heating season.

The commission was not convinced that

the revenues for the year 1958 represented such a departure from normal increases due to increased business as to warrant adjustment. It was not convinced that the extremely warm year of 1957 should be used as a norm.

Fair Rate of Return

The commission thought that the company's determination of a fair rate of return was "rather fantastic." The company had used the cost-of-money approach, but after determining the actual cost, had departed from it and used what it called judgment figures. The commission said:

> We feel that current jurisprudence condemns the method used by the applicant herein of arriving at a return factor to be applied to the equity capital. Actually, the method appears rather slipshod to us because a composite earnings-price ratio of 22 natural gas companies, excluding the applicant, was determined to be 8.45 per cent at the end of 1957 as shown at page 15 of Exhibit 9, and this determination is completely ignored and a rate of return of 12 per cent was arbitrarily applied which is purely a judgment figure.

The commission thought that the staff method of using the earnings-price ratio of United's own common stock at various dates during 1958 to appraise the cost of capital followed what the supreme court had in mind when it said that "the peculiar situation of each utility, which is largely reflected in its cost of capital, dictates the level of its earnings."

The commission reiterated its opinion that investors are concerned not only with yields but with pay-out ratios as well, or the relationship between dividends paid and the current earnings per common share.

The investor regards the margin between dividends and the earnings as a cushion for the assurance of future dividends, said the commission, as well as a measure of the prospect of higher dividends in the future. The earnings-price ratio, or the relationship of earnings per share to the market price of the common stock, indicates the investor's appraisal of a particular security and the price he is willing to pay in the open market. Therefore, the commission saw no justification for an adjustment from about 8 per cent to an arbitrary 12 per cent. *Ex Parte United Gas Corp. Docket No. 7796, Order No. 7827, June 23, 1959.*

Refusal to Dismiss Not Subject to Rehearing

An order denying a motion to dismiss a proceeding on the grounds that the commission lacks jurisdiction is not a final order on which a rehearing may be had, the Wisconsin commission ruled. The commission, therefore, denied rehearing of an order refusing to dismiss, on jurisdictional grounds, a proceeding for a change in an electric company's rule on the resale of electricity.

The applicable statute contemplates rehearing only with respect to an order which is intended finally to terminate a proceeding. Since only one rehearing may be granted under the statute, a rehearing on denial of a motion to dismiss would preclude an application for rehearing from the final order in the proceeding. The right to apply for rehearing on the final order will protect all parties, it was pointed out. *Re Adams-Marquette Electric Co-op. et al. 2-U-5124, July 2, 1959.*

Competition Approved for Transportation of New Commodity

THE Pennsylvania superior court has held that it is not improper for the commission to inject an element of competition into the field of motor common carrier transportation where a new and developing commodity is involved. The case involved an order granting one carrier limited authority to transport fly ash. Another carrier which had previously been granted similar authority objected to the grant of a certificate.

Fly ash, which resembles cement, is a waste product resulting from the burning of pulverized coal in the generation of electric power. Over the years, certain beneficial uses developed for fly ash in construction work are commercially profitable. The process is still in the stage of initial development.

The commission had found that the existing holder of authority to transport the commodity had displayed an apparent general disinterest in the commercial development. The shipper had stated a preference for the applicant's services. The court held that the commission could properly consider these two factors, and that it had acted within the area of its administrative discretion in granting the limited specialized authority. *Coastal Tank Lines, Inc. v. Pennsylvania Pub. Utility Commission, 151 A2d 846.*

Rail Rate Reduction within Zone of Reasonableness

THE California commission approved reduced rates for the transportation of petroleum products, filed by a railroad association, notwithstanding objections by motor carriers that the reductions were unreasonable, and by water carriers that the proposed rates would not enable them to compete fairly with land carriers.

There is a zone of reasonableness within which common carriers may exercise discretion in establishing their rates, pointed out the commission. The lower limits of that zone are fixed, generally, by the point at which the rates would fail to contribute revenue above the out-of-pocket cost of performing the service. The reduced rail rates were found to be above the minimum reasonable level.

It was apparent to the commission that the reduced rates would provide the railroads with an opportunity to halt the decline in traffic and probably increase the amount of petroleum shipments. Since the rates were clearly above the out-of-pocket costs, no burden would fall on other traffic.

The commission noted that shippers and receivers usually preferred truck service because of convenience, speed of transit, or other reasons. When truck and rail rates are the same, all factors favor the truck.

The trucker may charge, and the shipper may pay, a higher rate, if the truck service is considered more desirable. The highway carrier is not required to charge the same rates as the railroad. Therefore, the reduced rail rates were justified by transportation conditions.

Objection by Water Carriers

Barge lines contended that a statutory provision, providing that it is in the public interest to give rate-making preference to water carriers, prohibited the reduced rates. The section had never been interpreted by the courts, but the commission concluded that it was obligated to

carry out the legislative mandate and imply to itself the power to prohibit a land carrier from reducing its rates where the water carrier would be unable to establish a rate differential which would permit it fairly to compete for the affected business.

The commission, however, held that the water carriers had not presented facts which would permit the commission to conclude that the reduced rates would prevent fair competition for business. *Re Rates for Transportation of Petroleum, Decision No. 58664, Case No. 6147, June 23, 1959.*

Municipal Water Rates Declared Discriminatory

THE Louisiana supreme court has affirmed and adopted in toto a court of appeals judgment reversing a judgment which had upheld the legality of a municipality's increased rates for water service to residents who were not also taking the municipality's electric service. The sole issue in the case was whether or not a municipality which owns and operates its utilities can charge a higher rate for water to customers outside the city limits, who take water service only, than it charges for water to those customers outside the city who take both water and electric service.

The court of appeals had issued an injunction against the municipality and had held that the rate classification was not justified since the customers were similarly situated. The supreme court, in adopting the opinion of the court of appeals, stated that no useful purpose could be gained in rehashing and reiterating the lower court's findings. No new issue had been raised and all of the issues had been carefully, painstakingly, ably, and correctly disposed of by the court of appeals. *Hicks et al. v. City of Monroe Utilities Commission et al. 112 So2d 635, affirming (1958) 27 PUR3d 335, 108 So2d 127.*

Normalization of Income Taxes Upheld and Hindsight Review Rejected

THE Indiana supreme court has affirmed a lower court decision (22 PUR3d 13) upholding a commission order which allowed the Public Service Company of Indiana, Inc., an electric rate increase of $1,718,857. Intervener-appellants urged that there was no evidence to support the commission's further action in allowing a temporary increase pending further litigation on permanent rates.

The court found, however, that there was evidence that the company's net income was not presently sufficient to provide a fair return. A utility, as a matter of law, cannot be required to submit to a day-by-day confiscation of its property, said the court.

Hindsight Review Urged

Appellants contended that the regular rate increase was unwarranted since the commission's estimate of gross operating revenues for the test year proved to be understated when all the actual operating data became available. In effect, hindsight review was urged as a standard for judging the actions of the commission, although the commission did not at the time have the benefit of such retrospection in its holding.

If an order is reasonable under the limited facts available at the time it is made, subsequent changes in conditions cannot make it retroactively erroneous, the court declared. Moreover, the increase in

gross revenues would not necessarily indicate an increase in net revenues. There were probably changes in operating expenses as well as in the rate base.

Normalization of Taxes

Objection was made to the commission's action in allowing an accounting procedure whereby the company set aside a reserve out of income tax savings resulting from accelerated amortization, in order to take care of increased taxes which will occur after the five-year amortization period. The appellants complained that they were not getting the full benefit of the tax savings afforded by accelerated depreciation at the present time. Such benefit, however, would be enjoyed at the expense of ratepayers in subsequent years when the depreciation will continue without tax allowance, with the result that taxes will be proportionately higher.

Any concept which treats such an unusual tax reduction as a "saving" to belong solely to the five years allowed is totally out of touch with reality, the court observed. The power of the commission to authorize an accounting system under which reserves are set up for future tax increases, losses, or contingencies is an administrative matter. Furthermore, unless deferred federal income taxes are normalized, the commission could not determine with any accuracy the amount of net operating income which would constitute a fair return.

Regulation of Contracts

The appellants contended that by reason of special contracts which they had with the company for the furnishing of energy to them as utilities, for resale, and not as consumers, they were not subject to the ordinary rate-making procedure. The applicable statute, however, prohibits utilities from making special contracts with any other utility for services at rates other than those prescribed in schedules approved by the commission. All contracts of the appellants, therefore, were made subject to the regulatory power of the commission.

But aside from the statutory power, the contracts expressly recognized the commission's power to revise their terms and conditions. *Boone County Rural Electric Membership Corp. et al. v. Indiana Pub. Service Commission et al. 159 NE2d 121.*

Licensees Granting Equal Air Time Have Implicit Federal Immunity from Libel

THE U. S. Supreme Court has held that the prohibition against censorship contained in § 315 of the Communications Act, which requires a broadcast licensee to afford equal opportunities to all candidates for political office, does not leave broadcasters free to delete libelous material from candidates' speeches. The term "censorship," pointed out the court, as commonly understood, connotes any examination of thought or expression in order to prevent publication of objectionable materials. There was no convincing reason to indicate Congress meant to give "censorship" a narrower meaning.

To permit a broadcasting station to censor allegedly libelous remarks, said the court, would undermine the basic purpose for which § 315 was passed, which is full and unrestricted discussion of political issues by legally qualified candidates.

Moreover, the decision a broadcasting station would have to make in censoring libelous discussions by a candidate, is far from easy. Whether a statement is defamatory is rarely clear. Whether such a

statement is actionably libelous is an even more complex question, involving consideration of various legal defenses such as truth and the privilege of fair comment. Such issues have always troubled courts, and would be extremely difficult for an individual licensee to resolve during the stress of a political campaign.

Implicit Federal Immunity

The court also held that § 315 creates an implicit federal immunity for the broadcast licensee from liability under state libel laws. To hold otherwise, it said, would sanction the unconscionable result of permitting civil and perhaps criminal liability to be imposed for the very conduct the statute demands of the licensee.

The implicit federal immunity read into the section by the court was countered by petitioner's argument that Congress' failure to legislate an express immunity negated the inference of an implied immunity. The court disagreed. Whatever adverse inference may be drawn from the failure of Congress to legislate an express immunity, it said, is offset by its refusal to permit stations to avoid liability by censoring broadcasts. And more than balancing any adverse inferences drawn from congressional failure to legislate an express immunity is the fact that the Federal Communications Commission—the body entrusted with administering the provisions of the act—has long interpreted § 315 as granting stations an immunity.

Insurance and Denial of Time

The petitioner then advanced another argument. It urged that broadcasters did not need a specific immunity to protect themselves from liability for defamation since they may either insure against any loss or, in the alternative, deny all political candidates use of the station facilities.

The court had no means of knowing to what extent insurance is available to broadcasting stations, or what it would cost them. But since § 315 expressly prohibits stations from charging political candidates higher rates than they charge for comparable time used for other purposes, any cost of insurance would probably have to be absorbed by the stations themselves.

The petitioner's reliance on the station's freedom from obligation to allow use of the station by any candidate seemed equally misplaced. While denying all candidates use of the stations would protect broadcasters from liability, it would also effectively withdraw political discussion from the air. The impact of § 315 is to facilitate political debate over radio and television. Recognizing this, the Communications Commission considers the carrying of political broadcasts a public service criterion to be considered both in license renewal proceedings, and in comparative contests for a radio and television construction permit.

The court was aware that causes of action of libel are widely recognized throughout the states. But it pointed out that it would not hesitate to abrogate state law where it was satisfied that enforcement would stand as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress. Here, the petitioner had asked the court to attribute to § 315 a meaning which would either frustrate the underlying purposes for which it was enacted, or alternatively impose unreasonable burdens on the parties governed by the legislation. In the absence of a clear expression by Congress, the court would not assume that the federal lawmaking body desired such a result.

Dissenting Opinion

Justices Frankfurter, Harlan, Whit-

taker, and Stewart joined in a dissent. Although they agreed that § 315 barred a broadcasting station from censoring political broadcasts, they took the view that the federal statute grants no immunity from liability under constitutionally enacted state libel laws.

The claim that the broadcast licensee could not be held liable under constitutionally enacted state libel laws must be tested, said the dissenting justices, not by inquiring whether a particular result would be unconscionable, but whether the result is or is not barred by federal legislation as construed and applied in accordance with settled principles of statutory and constitutional adjudication.

The dissenting justices opposed the invalidation of a state law by hypothesizing congressional acquiescence and by supposing conflicting state law which the court could not be certain existed and which, if it did exist, was not incompatible with federal law when judged by the consideration governing supersession in the long course of the court's decisions. The dissenting justices would have remanded the case to the state court with instructions that § 315 has left to the state the power to determine the nature and extent of the liability, if any, of broadcasters to third persons. *Farmers Educational & Co-operative Union of America, 3 L ed 2d 1407.*

Commission's Basis for Allocating Cost of Relocating Water Mains Upheld

THE Pennsylvania superior court has affirmed a commission order allocating, between a municipality and the department of highways, the cost of relocating water mains in connection with the construction of a highway. The commission has based its allocations on the relative benefits which accrued to the parties. The court held such a basis was fair and reasonable under the circumstances, since the statute did not spell out a basis of allocation and the basis used by the commission had been previously approved by the court.

In the absence of specific statutory provisions, the court did not feel that financial ability to pay would control or be determinative of the issue. The legislature did not contemplate, said the court, that the commission should enter into complicated questions of municipal taxation. The commission had not erred in determining that the municipality should pay for the cost of reconstruction only to the extent of the increased life expectancy of the water mains extending across the right of way of the limited-access highway. The court also held that it had jurisdiction to review the commission's determination. The statute authorizing the commission to allocate costs of relocating utility lines was not, in essence, an arbitration statute. Therefore, the commission's determination was not final and binding upon the parties, but either party was entitled to review. *Pennsylvania Dept. of Highways v. Pennsylvania Pub. Utility Commission, 151 A2d 850.*

Commission Cool to Hot Water Certificate Application

THE plans of First Therapeutic Waters Corporation received a jolt when the California commission refused to grant a certificate authorizing the company to pipe

hot mineral water to houses in a nearby subdivision.

The commission's staff investigated the matter thoroughly, and became concerned with the effects of the hot temperatures (170 degrees Fahrenheit) and the corrosion occasioned by the high mineral content of the water. Problems that would have to be solved included the design of pumping equipment that would have a reasonable operational life between major repairs and maximum efficiency for the type of operations required, the operation of a noncirculatory system of distribution mains when substantial changes in temperature take place, and the design and installation of meters for hot water operation. In addition, tariffs would have to be designed which would clearly define the service offered, provide for strict compliance with the regulations relating to cross-connections established by the state Department of Health, and establish minimum standards for system operation.

Provision would also have to be made to meet the operating deficit which would result even under full development of the proposed service area, notwithstanding that the president of the company, who was also one of the owners of the real estate tract, had agreed to advance money to cover necessary deficiencies because the addition of the hot water facilities to the lots would enhance the value thereof.

Since the evidence showed that the applicant proposed to serve any and all persons who desired such service, the commission concluded that the operation would be a public utility subject to its jurisdiction. There were, however, several factors which convinced the commission that it would not be in the public interest to certificate the operation. There had been no requests for service, nor had there been a demonstration of a requirement for the particular type of water proposed to be served. The proposed operation was extremely small and would not be economically self-sufficient. The applicant had offered no solution for the many operational problems involved, particularly that of temperature control, essential to a safe and satisfactory operation.

It was apparent to the commission that the applicant would be assuming many obligations of public utility service with little chance of success and that it would be grossly unfair to potential customers to have them assume that customary utility service would be available. *Re First Therapeutic Waters Corp. Decision No. 58665, Application No. 40713, June 23, 1959.*

Other Recent Rulings

Common Stock Purchase. The Illinois commission approved a telephone company's application for authority to purchase 5,976 shares of common capital stock of another telephone company where the commission had previously approved an issue by the selling company of 19,822 additional shares at the rate of one new share for each ten shares held on the record date and the purchasing company owned 59,762 shares on the record date. *Re Illinois Bell Teleph. Co. No. 46039, July 6, 1959.*

Cease-and-desist Order. The California commission stated that a cease-and-desist order issued by it against an individual and a corporation which had flouted its authority was, in its legal effect, the same as an injunction by a court. *Re Eastshore*

Consol. Water Co. Decision No. 58703, Case No. 6229, July 7, 1959.

Telephone Company Return. The Wisconsin commission considered a return of 6.50 per cent on a telephone company's net investment cost rate base reasonable. *Re Midway Teleph. Co., Inc. 2-U-5157, July 14, 1959.*

Automatic Forfeiture. The U. S. court of appeals held that an automatic forfeiture of a broadcasting station construction permit does not result upon the expiration of the permit unless the FCC fails to exercise its discretion to extend time, either by actual extension or by the grant of a new permit to replace the expired permit. *Mass Communicators, Inc. v. Federal Communications Commission, 266 F2d 681.*

Hearsay Evidence. In reviewing a carrier certificate case, the Utah supreme court pointed out that a commission finding will not be held invalid merely because it is based in part on hearsay evidence if, in addition, it is supported by a residuum of legal evidence competent in a court of law. *Lake Shore Motor Coach Lines v. Welling, 339 P2d 1011.*

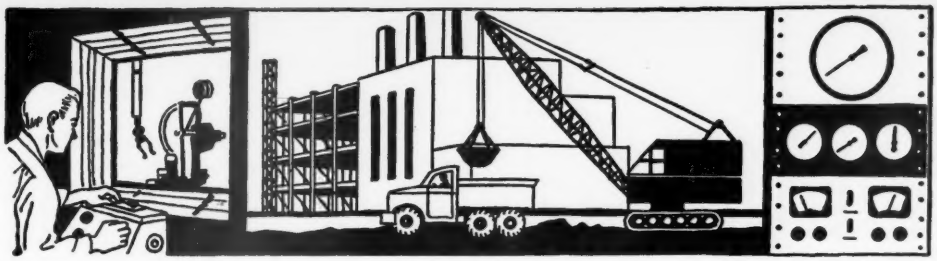
Electric Company Return. A return of 2.27 per cent on an electric company's reproduction cost new less depreciation rate base was considered fair by the Ohio commission. *Re Ohio-Midland Light & P. Co. No. 26,421, November 12, 1958.*

Sale of Telephone Companies. The Ohio commission approved the sale of two independent telephone companies' plants and properties, except for real estate owned in fee, to a subsidiary of the Bell system where it had been shown that present service was inadequate and the purchaser was ready, willing, and able to make necessary improvements. *Re New Riegel Mut. Teleph. Co. et al. No. 28,071, January 28, 1959.*

Rate Equalization. The Louisiana commission approved a telephone company's application for permission to adjust the rates at three exchanges upwards in order to equalize such rates with the rates being charged at two nearby exchanges rendering the same class of service. *Ex Parte Star Teleph. Co., Inc. Docket No. 7910, Order No. 7823, May 18, 1959.*

Minimum Rate Denied. The Colorado commission denied an application of a motor carrier association requesting an increase in the minimum charge per shipment from $2 to $2.75 where the proposed minimum would have priced carriers located outside metropolitan areas out of business and exemption of such carriers would have been discriminatory and unlawfully prejudicial. *Re Increases in Rates, Case No. 1585, Decision No. 52588, June 30, 1959.*

Telephone Service Area. The Illinois commission denied a petition by customers of an independent telephone company requesting the commission to withdraw the company's operating authority and declare the area open territory where the evidence showed that the facilities and services of the company were adequate and satisfactory, and the furnishing of extended area service from a nearby exchange would be too costly and would result in rates that were too high. *Schmitt et al. v. Kaskaskia Valley Teleph. Co. et al. Nos. 45043, 45083, July 21, 1959.*



Industrial Progress

EPCO to Build Fourth Unit At Portsmouth Station

IE Board of Directors of the Vir-ia Electric and Power Company ently authorized the expenditure of ,500,000 for the construction of a rth unit at the Portsmouth power tion.

President A. H. McDowell, Jr., an-uncing the decision following the rd meeting at Staunton, Va., said struction on the 220,000 kilowatt t will begin next spring. Comple-n date is expected to be in the ing of 1962.

Completion of the fourth unit at rtsmouth will bring the generating ability of that station to approxi-tely 600,000 kilowatts—more than ough power to light up the com-ed cities of Norfolk, Portsmouth l Newport News. When the new t is completed, the Portsmouth tion will have the greatest kilowatt ability of any in Vepco's system.

The Portsmouth station serves the tern part of Vepco's system, in-ding the metropolitan areas of rfolk, Portsmouth, South Norfolk l Suffolk.

Mr. McDowell recently announced ew $31,000,000 addition to Vepco's ssum Point power station. This t, similar in capability to the pro-ed unit at Portsmouth, will be rted next spring and also is expect-to be in operation by the spring of 62. The Possum Point station ves the northern part of Vepco's tem, including the metropolitan as of Alexandria, Arlington, Fred-cksburg and Falls Church.

Mr. McDowell said construction of se two units will add 440,000 kilo-tts capability to Vepco's system l bring the company's total gen-ting capability to approximately 00,000 kilowatts in 1962, an in-ase of 31.5 per cent over the pres-ent capability of approximately 1,-900,000 kilowatts.

New additions recently have been added to Vepco's Bremo, Portsmouth and Yorktown power stations. An-other new unit of 170,000 kilowatt capacity is currently under construc-tion at the Chesterfield power station. This unit is expected to be in opera-tion early next year.

"The average annual use of elec-tricity by residential customers dur-ing the last 10 years has increased by 120 per cent," Mr. McDowell said, "while the number of customers served has grown by 70 per cent dur-ing the same 10-year period."

Work Starts on PG&E Geysers Power Plant

CONSTRUCTION was started re-cently on Pacific Gas and Electric Company's Geysers electric power generating station 26 miles north of Healdsburg in northeastern Sonoma county. A contract to build the power plant building, a concrete box culvert bridge across Big Sulphur Creek and access roads, has been awarded to Christensen & Foster and R. J. Som-mers Construction Company of Santa Rosa, it was announced recently by S. L. Sibley, PG&E vice president and general manager.

The 12,500-kilowatt geothermal station, first of its kind on the North American continent, is scheduled for completion next summer. It will util-ize natural steam brought from wells at the historic Geysers site by Ther-mal Power Company and Magma Power Company. PG&E expects to invest about $2 million in the project.

Thermal announced recently that wells already completed are producing steam in excess of the PG&E plant's requirements of 250,000 pounds per hour, and that additional wells are be-ing drilled.

Terms of the agreement between PG&E and the steam-producing com-panies provide for a second turbine-generator unit at the same location when and if sufficient additional steam is available.

Mr. Sibley said that additional con-tracts for subsequent phases of con-struction will be awarded later. A 10-mile-long, 60,000-volt transmission line will carry electricity generated at the plant to an existing line near Geyserville, and then into PG&E's in-terconnected transmission system.

This plant will be the world's first privately-financed geothermal plant. Government subsidized stations using natural steam are operating in Italy and New Zealand. Geologists who have studied the Geysers (and who say they are not geysers, but steam fumaroles) explain that most of the steam is formed by moisture from "magma," the molten mass deep in the earth, and is emitted through sub-terranean fissures. Additional steam is formed by water from the earth's surface percolating down through pervious rock to deeper rock forma-tions heated by the magmatic steam.

1,000-lb. Coal Scale Introduced By Richardson

A NEW size automatic coal scale, with a 1,000-lb. unit capacity, has been developed by Richardson Scale Company, it was announced recently.

A special feature of this scale is the the greater accessibility provided to

(*Continued on page* 20)

UTILITY RATE ENGINEER

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all critical parts by a total of eight access doors — two more than on the standard models. These doors permit quick removal of the weigh hopper and easy access to any part of the scale for inspection or adjustment. They have special linings and mountings to prevent coal dust from falling to the floor when the door is opened.

Ruggedly constructed with heavy steel angles on the frame and plates of heavy-gauge sheet steel to withstand wear and tear, it has an hourly capacity of 60 tons. According to the announcement, ten of these machines are now being installed in one of the largest steam plants in the country.

For further information on the 1,000-lb. Coal Scale, write Richardson Scale Co., Clifton, New Jersey.

Westinghouse to Build 325-MW Turbine-Generator

THE Westinghouse Electric Corporation will build a 325-mw, cross-compound, steam turbine-generator for the Public Service Electric and Gas Company. The machine will be installed in the company's Sewaren generating station as unit numbe and is scheduled for operatio 1962.

Inlet steam conditions of the rpm cross-compound turbine are psi, 1100 degrees F, reheat tem ture of 1050 degrees F, with stages of feed-water heating. turbine will utilize four rows o inch-long last row blades giving largest exhaust annulus area of four-flow 3600-rpm turbine ever chased. This marks an importan vance in the design of large speed turbines.

Each of the two inner-cooled erators is rated at 208,000 kva u 45 psig hydrogen pressure. The 000-volt generators will be arra for outdoor service with walk-in closures over the collector rings. generator shaft will drive a one capacity boiler feed pump.

This advertisement is neither an offer to sell nor a solicitation of offers to buy any of these securities. The offering is made only by the Prospectus.

NEW ISSUE August 19, 1959

$15,000,000

American & Foreign Power Company Inc.

6% Convertible Junior Debentures due 1984

Dated August 1, 1959 Due August 1, 1984

Convertible into Common Stock of the Company, unless previously redeemed, at a conversion price of Common Stock (with Debentures taken at their principal amount) of $16 per share from December 1, 1959 through the opening of business on December 1, 1969 and at $18.50 per share thereafter until maturity. These prices are subject to adjustment under certain conditions.

Price 100% and accrued interest

Copies of the Prospectus may be obtained from any of the several underwriters only in States in which such underwriters are qualified to act as dealers in securities and in which the Prospectus may legally be distributed.

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Workings of "Super-Deep Water" Platform Shown in Fo By R. G. LeTourneau, Inc.

A FOUR-PAGE folder with 1 lustrations has been prepared to s the workings of a proposed "su deep water" offshore drilling form—a platform which can e change locations in waters up to feet.

Produced by R. G. LeTourn Inc. of Longview, Texas, the fo depicts some of the results of t years research by the company's rine engineers.

Illustrations show how the "s ed legs" of the tripod platform provide maximum stability. Als lustrated is the convenience in t ing from one location to another, the relatively short time required lowering the legs and raising deck.

Free copies are available by wri R. G. LeTourneau, Inc., 2399 S MacArthur, Longview, Texas.

High Pressure Heat Transfer T Loop Simulates Nuclear Power Plant

A RECENTLY completed test cility at Allis-Chalmers Greenf (Wis.) nuclear power lab is now s plying heat transfer and press drop data required for boiling wa nuclear reactor design. Tests variables such as fuel element diameter, pin arrangement, wa

(*Continued on page 22*)

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A ready-to-roll workshop on wheels . . . that's this versatile Dodge Tradesman, and it puts to use every available inch of space.

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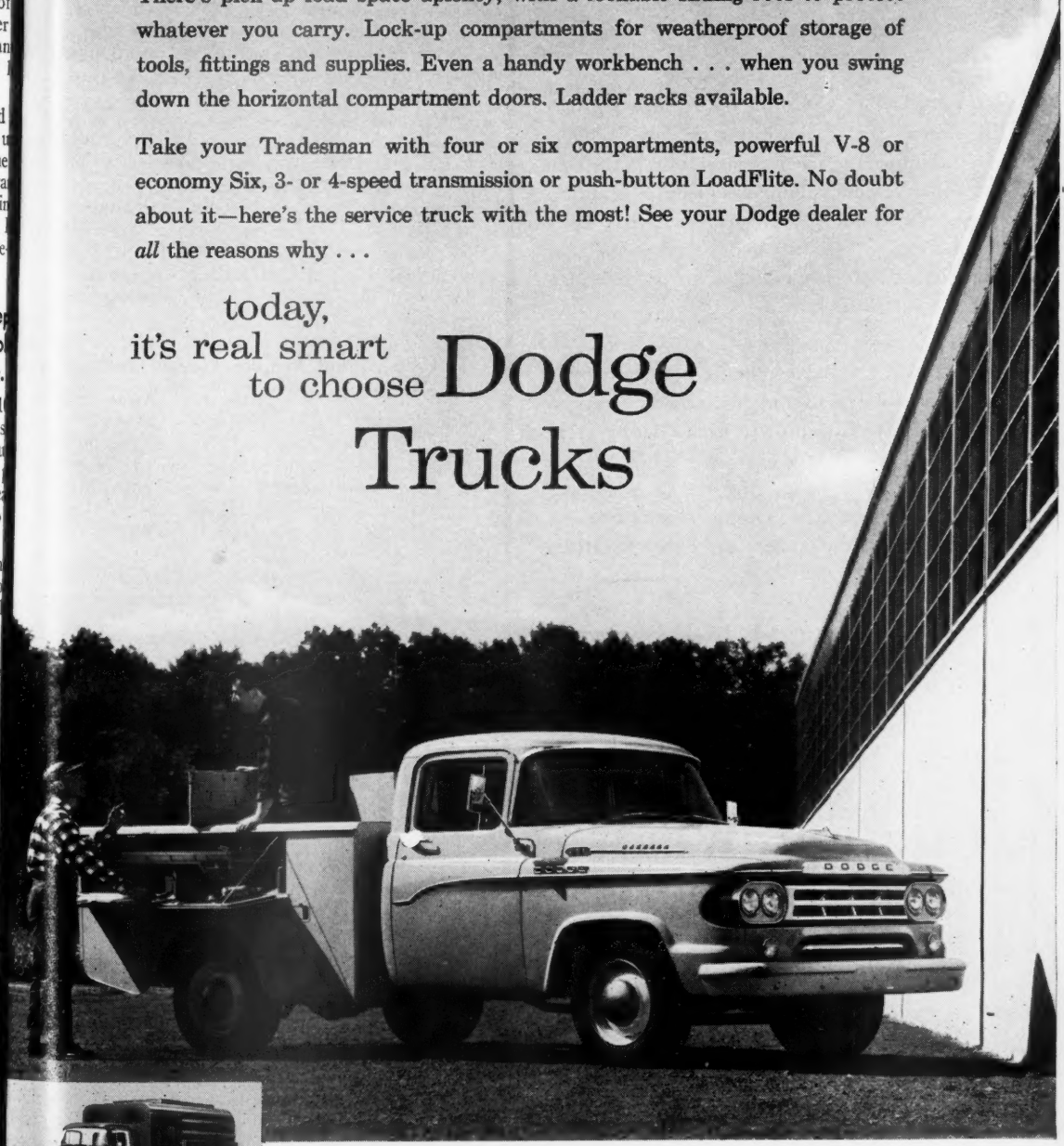

For service calls in any kind of weather and over any terrain, you can't beat Dodge 4 x 4 Power-Wagons! This W500 with special utility-type body, for instance, combines Dodge dependability with two- or four-wheel-drive traction that goes anywhere. Winch and power take-off available.

Is Your Company "Keeping Pace?"

From 1945 to 1958 annual operating revenues of electric and gas utilities rose over 200%. Maintaining an efficient organization in the face of this increasing volume has placed a strain on many companies. Top management has often been so busy with day-to-day operations that insufficient time has been left to prepare men for growth needs.

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voids, water velocity and heat flux provide the dat optimum reactor core designs.

Heat source for the test loop is an Allis-Cha unipolar generator, rated 60,000 amp, 30 volts. It plies high current, low voltage power through sim ed reactor fuel elements to produce the variables a ing heat transfer from fuel elements to boiling w

Actually a model power plant setup, the loop inc a test fuel element that serves as the boiler and a throttle that acts as the turbine. Water is pu through the simulated fuel element, where some is changed to steam. Steam and water are sepa and the water is recirculated through the test ele The steam is throttled, condensed and pumped back the recirculating water through an electrical immer water heater.

The loop is designed for a maximum pressure temperature of 1500 psi, 600 F. It is used for forced and natural circulation studies.

Tests presently center on equipment for the finder power station to be built near Sioux Falls, S by Allis-Chalmers for the Northern States Power pany. The 66-mw station will be the first full- plant with an internal nuclear superheater. Net ciency of the Pathfinder plant is now estimated 30.5 per cent.

CP&L Plant Project Nears Halfway Mar

CONSTRUCTION nears the halfway mark at lina Power & Light Company's steam-electric gen ing plant near Hartsville.

Highlight of recent activities was installation of of the plant's largest and most vital "fixtures," giant transformers which will convert generated age to transmission voltage for delivery into the Dee power market.

The transformers when equipped and filled wit will weigh 75 tons each. They were unloaded and pl on their foundations in a record-breaking four h according to L. A. McCants, construction superint ent at the site.

Ground was broken for the plant just over a ago. Target date for its completion is mid-1960.

National Safety Congress to Devote Time to Utility Problems

FOUR sessions of the 47th National Safety Cong annual convention of the National Safety Council, be devoted to problems of the public utilities indust

Topics to be discussed will include "Is Your Gro ing a Hazard?" and "Modernizing Line Construc and Maintenance."

A safety workshop will deal with distribution transmission safety problems and their solutions.

Other items of interest to delegates will be a dis sion on supervisory training—"Simpatico and Saf —and a motion picture on mouth-to-mouth resus tion.

The National Safety Congress will be held Oct 19-23 in Chicago, and is expected to attract 12 safety men from the United States, Canada and sev foreign countries.

Public utilities sessions of the Congress will be October 21-22 at the Conrad Hilton Hotel.

(*Continued on page* 24)

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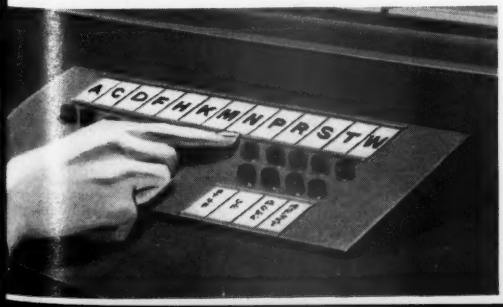

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New Transformer Catalog

THE Standard Transformer Company, Warren, Ohio, has issued a new catalog (S-503) describing its redesigned line of current, potential and metering transformers. The line consists of high accuracy instrument transformers for use with watthour meters, as well as types designed for use in switchgear. All units conform with EEI, ASA and NEMA standards. Write The Standard Transformer Company, Dana Avenue, Warren, Ohio.

Peoples Gas Light Reports Progress On Tunnel under Calumet River

A TUNNEL being dug under the Calumet river for a natural gas pipeline under construction between Joliet and Chicago is nearing completion, The Peoples Gas Light and Coke Company announced recently.

Workmen are excavating earth on remaining segments and pouring concrete for the outer shell of the tunnel, the 75-foot shafts on the north and south bank of the river having been completed. The top of the tunnel is about 60 feet below the water surface. The tunnel, estimated to cost $481,000 when completed, is designed to accommodate a second line for future expansion.

The 60-mile pipeline, estimated to cost $17,000,000, is being constructed by Peoples Gas and Chicago District Pipeline Company, a subsidiary. Work on the project, known as the Third Calumet Line, was begun June 1. The pipeline is expected to be completed and placed into operation in early fall.

When completed, the line, with a design capacity of 557 million cubic feet per day, will transport gas supplies for residential, commercial and industrial customers of gas utilities serving Chicago and surrounding areas. It also will provide flexibility for future growth of gas supplies in the Chicago area.

New Job-Planned Truck Bodies For Electric Utilities

A NEW series of "job-planned" line construction truck bodies for electric utilities is being manufactured by Reading Body Works, Inc., of Reading, Pa.

Featuring a heavy-duty, derrick-type lift, the vehicle has 12 watertight compartments for the storage of tools, equipment and supplies. The inside of the body is large enough to transport bulky equipment. It holds three large pole transformers with space remaining for additional parts.

The three-ton unit is equipped with a two-way radio system.

To Study Feasibility of Advanced Type of Nuclear Power Reactor

A JOINT study to explore the feasibility of an advanced type of nuclear power reactor is to be undertaken by Nuclear Power Group in coöperation with Atomic International, a division of North American Aviation, Inc.

The study will be concerned with the possibilities of the graphite-moderated, water-cooled, boiling and superheating reactor concept for power generation, according to the announcement made by Nuclear Power Group.

"Preliminary studies made by NPG engineers during the past ten months," it said, "have proved sufficiently promising to warrant further study in coöperation with a manufacturer in the nuclear field to determine if the concept is worth carrying into the research and experimental stages.

"There is no plan at this time to build such a reactor. The cost of the study is estimated at about $150,000. NPG and Atomics International will each bear the cost of the work they do."

NPG is a research organization formed by Central Illinois Light Company, American Electric Power Service Corporation, Bechtel Corporation, Commonwealth Edison Company, Illinois Power Company, Kansas City Power & Light Company, Pacific Gas and Electric Company and Union Electric Company. Headquarters are maintained in Chicago.

The reactor concept to be studied would use graphite blocks as a moderator and uranium as fuel. The reactor would consist of a large pile of graphite blocks in which holes are pierced for insertion of the fuel elements.

Other holes in the graphite blocks would contain metal tubes in which the water boils and the steam is superheated.

One advantage of this concept would be the production of steam at modern high pressures and temperatures. Another is that there would be no limitation on the size of such a reactor and refueling could be done while the plant was in operation.

NPG, which was formed six years ago, is a co-sponsor of the Dresden Nuclear Power Station, the 180,000-kilowatt boiling water atomic power plant now nearing completion 50 m southwest of Chicago.

Atomics International has doing research and construction on atomic reactors for over 10 y It has headquarters at Canoga P California.

The major NPG contribution t advancement of atomic power been in connection with the buil of Dresden station. The group is tributing $15,000,000 as a rese and development expense toward cost of the project.

General Electric Company is b ing Dresden for a fixed price $45,000,000. The balance of $30,0 000, plus site and overhead cost being paid by Commonwealth Ed which will own and operate the p

Dresden is the largest all-nuc power station under construction the country. It is expected to b regular service in mid-1960.

American Electric Power Pas Energy Sales Milestone of 25 Billion Kwh

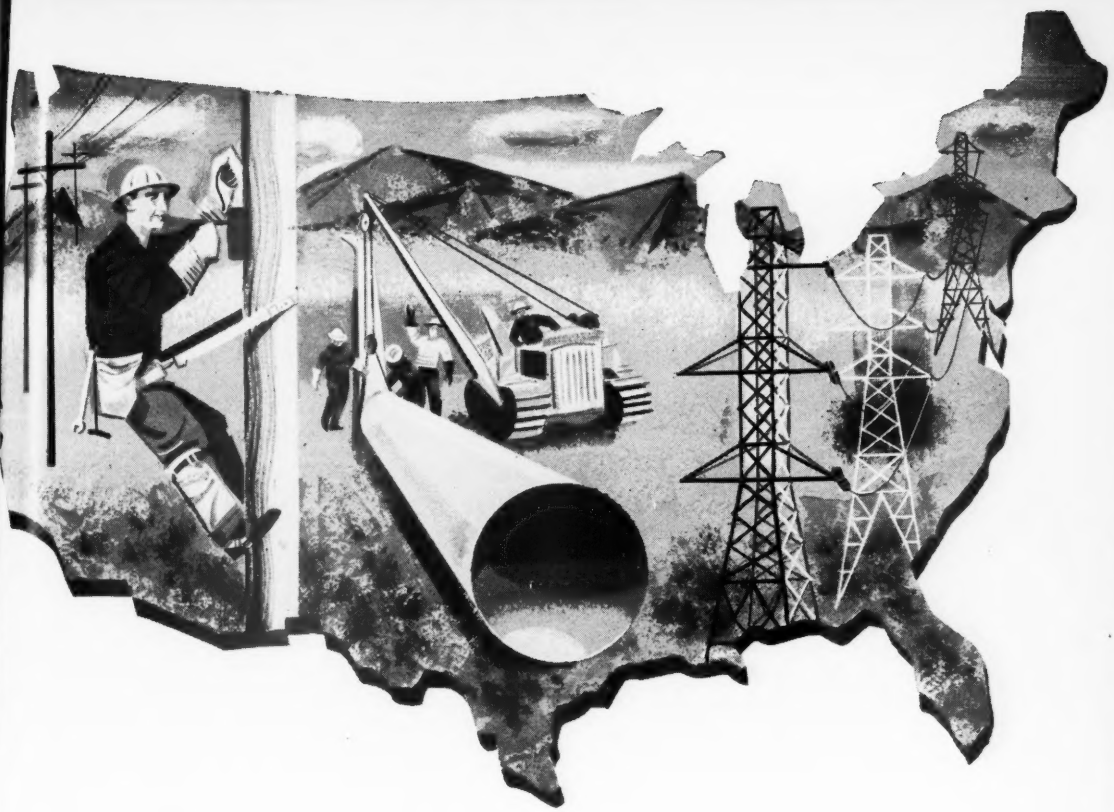
THE American Electric Power C pany is the first private electric ut to achieve energy sales of more t 25-billion kilowatthours during a month period.

The AEP System passed the po milestone for the 12 months en July 31st, it was reported. Sales this period totaled 25,244,000,0 kwh.

The new record, representing increase of 16.3% over sales of 22,6 000,000 kwh for the parallel perio 1958, was established in the face of nationwide steel strike which was effect during the final 17 days of 12-month span. AEP is a major s plier of electric power to the st industry.

In commenting on these resu AEP President Philip Sporn sa "Besides the general high level economic activity in the country, ma specific factors unique to our operati area contributed to this new sa mark. Notable were increases in company's aluminum, steel, ferro-al and chemical loads; improvement coal production; and the hig residential and commercial use due increased acceptance of electric ho and commercial heating."

In this connection, he pointed that electric home heating on the AE System recently had passed the 15,0 mark in the number of resident customers being billed for electr heating.



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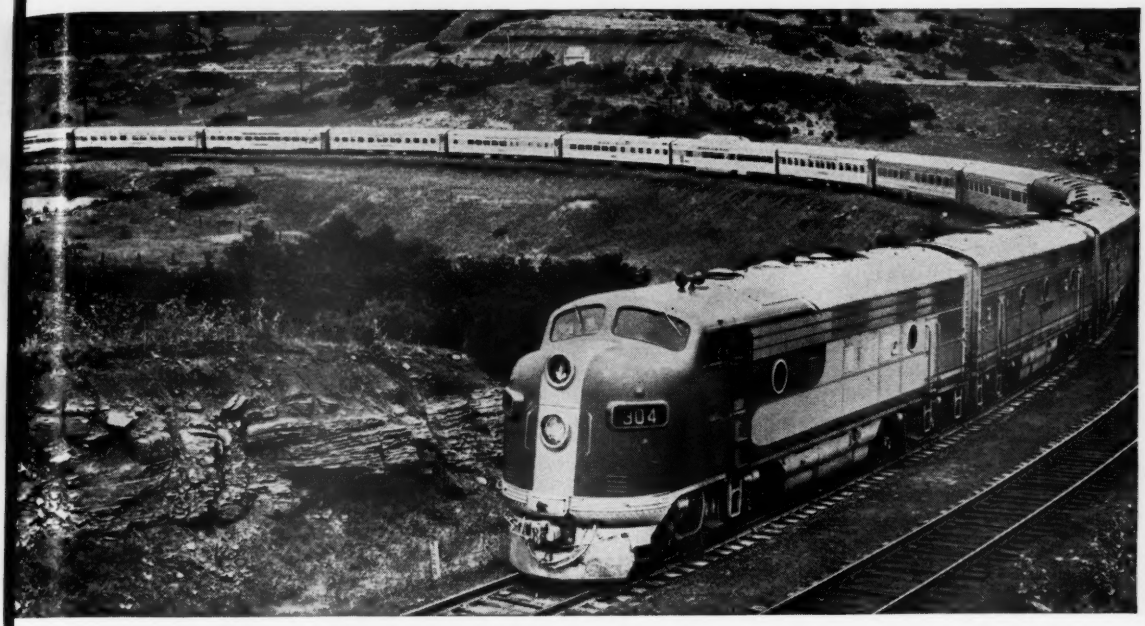

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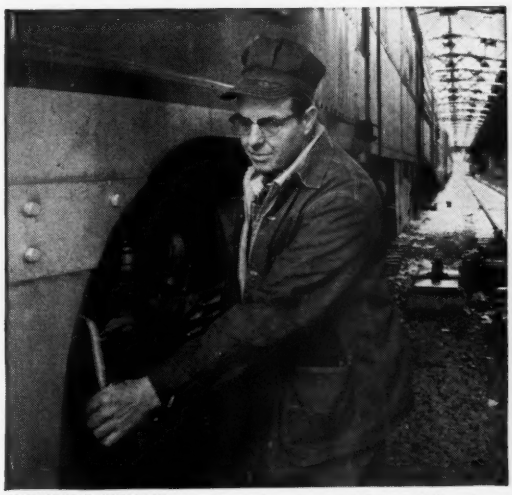

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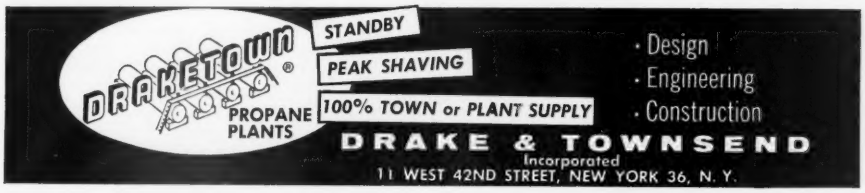

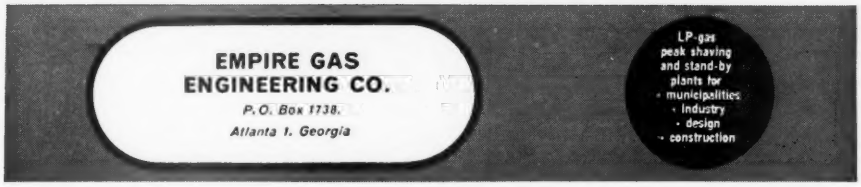

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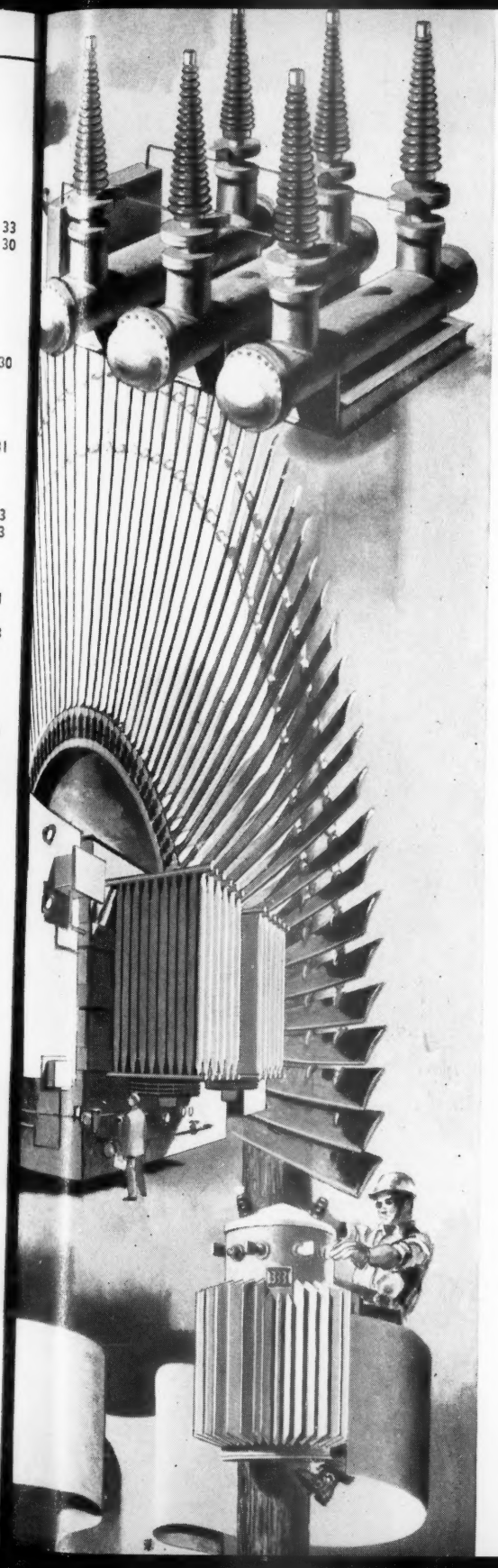

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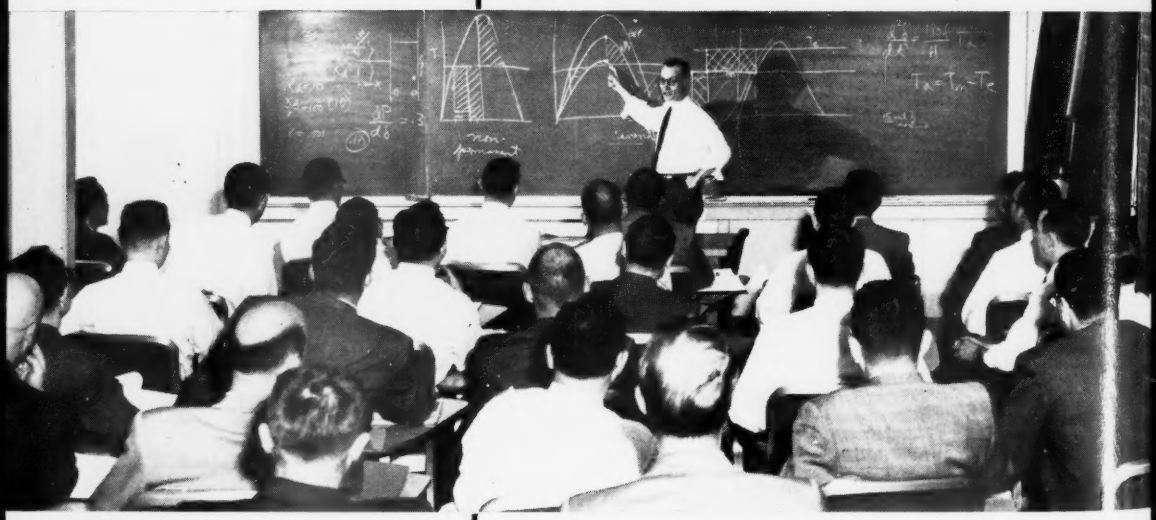

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